

## Drax Group plc

### Preliminary Results for the year ended 31 December 2005

(London – 8 March 2006) Drax Group plc, the UK independent power generator, announces its preliminary results for the year ended 31 December 2005 and reports on key developments to date.

#### Highlights:

- Refinancing and listing – successfully completed in 15 December 2005
- Net sales in 2005 of 23.2TWh (22.9TWh 2004)
- EBITDA of £239million, £19million higher than the forecast included in the Listing Particulars
- Gross margin was 63% higher than in 2004, primarily due to higher power prices. The average capture price in 2005 was £33.9/MWh (£22.5/MWh 2004)
- As at 3 March 2006, 75% of expected output in 2006 had been contracted at an average price of £46.9/MWh and 47% of expected 2007 output had been contracted at an average price of £49.2/MWh
- In the 11 weeks following the enhancement of the Group's credit status on refinancing and listing, volume of forward power sales has increased by 49% reflecting improved trading counterparty interest
- Base dividends to be paid later in the year in line with stated policy
- First additional distribution also expected later in 2006

#### Year ended 31 December 2005 compared to year ended 31 December 2004

	Year ended 31 December		Movement
	2005	2004	
	£ million	£ million	
Revenue from generation <sup>(1)</sup>	849	549	+55%
Total revenue	929	624	+49%
Gross margin <sup>(2)</sup>	389	239	+63%
EBITDA <sup>(3)(4)</sup>	239	90	+166%
EBITDA (after exceptional items) <sup>(5)</sup>	385	90	
Operating Profit	354	55	
Profit/(loss) before tax	264	(42)	

(1) Revenue from generation excludes revenues associated with power purchases of £80 million (2004: 75 million).

(2) Gross margin is defined as total revenues less total fuel costs of £540 million (2004: £385 million).

(3) EBITDA is profit before interest, tax, depreciation and amortisation, exceptional items and unrealised losses on derivative contracts.

(4) Exceptional items in 2005 comprise income of £19 million due to the reversal of provisions relating to impairment of tangible fixed assets and £311 million as a result of three distributions received from the Administrators of TXU, partially offset by a charge under the Group's Long Term Incentive Plan of £38 million, and costs incurred with respect to the Refinancing and Admission of £29 million. Unrealised losses on derivative contracts were £117 million in 2005. There were no exceptional items in 2004.

(5) EBITDA (after exceptional items) is profit before interest, tax, depreciation and amortisation.

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

"I am very pleased with the 2005 Drax results. During the year the company undertook a substantial financial restructuring, including listing the Drax Group shares on the London Stock Exchange, whilst continuing to deliver strong improvements in operational and financial performance. We have made significant progress since listing to build our forward power sales and expect to deliver significant cash distributions during 2006 as we benefit from good performance against a background of robust commodity markets."

## Management Presentation and Conference Call

Management will host a presentation for analysts and institutional investors at 9:00am (UK Time) today, 8 March 2006, in the Ayres Room at the offices of Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB.

A copy of the presentation will be made available from 7am (UK time) on Wednesday 8 March for download at [www.draxgroup.plc.uk](http://www.draxgroup.plc.uk) (>>Financial Results 2005).

Event Title: Drax Group plc: Full Year Results  
Event Date: Wednesday 8 March 2006  
Event Time: 9am (UK time)

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

### Webcast details

Live Event Link:

<http://wcc.webeventservices.com/view/wl/r.htm?e=20494&s=1&k=C788DE0D38DCE7019EFD875DF6FE4774>

### UK Instant Replay

Start Date: 8 March 2006  
Delete Date: 8 April 2006  
Dial In Number: 020 7031 4064  
Freephone number (UK only): 0800 358 1860  
Passcode: 694875

### US Instant Replay

Start Date: 8 March 2006  
Delete Date: 8 April 2006  
Dial In Number: +1 954 334 0342  
Freephone number: +1 888 365 0240  
Passcode: 694875

### Video Webcast

Start Date: 8 March 2006  
Delete Date: 8 June 2006

Archive Link:

<http://wcc.webeventservices.com/view/wl/r.htm?e=20494&s=1&k=C788DE0D38DCE7019EFD875DF6FE4774>

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## **CHAIRMAN'S STATEMENT**

### **Introduction**

Through the ownership of the largest, cleanest and most efficient coal-fired power station in the country, with a nominal output capacity of 3,960MW, the Group provides power sufficient to meet around 7% of the electricity needs of the UK.

The year 2005 was transformational: it saw the group refinanced and its shares listed for the first time on the London Stock Exchange. Accordingly, this is the first Preliminary Results Statement for Drax Group plc which became the holding company of the Drax group of companies on 15 December 2005.

### **Re-financing and Listing**

In March 2005, Drax Group Limited set out its proposals to refinance and list the business by the end of the year. The reasons were clear to the Board. The prevailing capital structure was restricting the ability of management to develop its trading and business strategy and in consequence management efforts to enhance shareholder value were being inappropriately constrained. Throughout the year in a series of investor roadshows, letters, meetings and discussions the Board outlined and developed its proposals to align the trading, operational, and financial strategies to deliver greater shareholder value. Much effort was put into engaging with investors, seeking their understanding of the plans, and receiving their feedback directly and through their representatives, all of which helped shape the final proposals. Whilst conceptually straightforward, the re-financing and listing were technically difficult to implement requiring very high levels of positive shareholder and lender approvals within what was then a complex capital structure.

During the autumn of 2005 three separate indicative offers were made for the business. The Board assessed each of them against the same criteria: value, deliverability and timeliness. Having regard to these criteria, and to the views expressed by investors directly, indirectly through their representatives, and significantly through their votes, the Board with the support of its advisers concluded that the re-financing and listing was the best option and the bids were either rejected or fell away.

The Group now enjoys a robust and simple capital structure appropriate to a business operating within commodity markets and its shares trade in a transparent and liquid market. I am pleased to note that the refinancing and listing delivered the expected investment grade ratings for the Group debt and for the principal operating subsidiary, Drax Power Limited. The resulting credit standing with trading counterparties, together with our enhanced ability to provide credit support where necessary, is already delivering significant trading and operational benefits.

### **Results for 2005**

The Group produced a strong performance in 2005 delivering an Operating Profit (before exceptional items and mark-to-market adjustments on forward contracts) of £208 million, a substantial improvement on the previous year's performance. EBITDA of £239 million was £19 million better than the forecast £220 million EBITDA included in our Listing Particulars which were published in October 2005 and updated on 11 November 2005. Including exceptional items and mark-to-market adjustments would increase both Operating Profit and EBITDA by £146 million.

### **Returns to Shareholders**

In our 2005 Listing Particulars the Company put forward Drax as a 'cash conversion' story. It laid out its intention to make distributions to shareholders in the form of an annual base dividend of £50 million (payable in line with normal listed company practice) and in addition 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.

In respect of our base dividend we intend to pay an interim dividend in respect of the six months to 30 June 2006 of 4 pence per share being approximately £16.3 million. This will be paid in autumn 2006.

As regards the additional distribution, work has commenced to identify the most appropriate method for returning surplus cash. We expect to advise shareholders of the proposed method of return at our AGM in May, followed by an indication of the likely range of distribution, timing and any shareholder approval process in a Trading Update given at the end of June.

## **Our People**

The sustained commitment and dedication of all our employees has been a crucial part of our success over the last three years. The old and new skills brought to Drax combined as one team, and their efforts against the backdrop of improving markets has seen the business develop strongly. Our people at Drax rose to the new challenges and opportunities posed by the impending refinancing and listing. I should like to thank all of them for their contribution, flexibility and enthusiasm in what proved to be an eventful and successful year.

Gordon Horsfield  
Chairman

## **CHIEF EXECUTIVE'S STATEMENT**

### **Introduction**

In 2005 commodity market developments dominated the UK energy landscape. Energy commodity prices have been strong, led by the price of crude oil. Natural gas prices were particularly high towards the end of the year, influenced by oil and a tighter demand/supply balance as the UK moved to a greater reliance on imported gas. High gas prices have meant that gas fired generation became the principal price setting plant in the power market and had a strong upward influence on the power price. The year also saw the introduction of the EU Emissions Trading Scheme with carbon becoming a traded commodity and a new cost to fossil fuelled power plant, so also influencing the price of power upwards.

Against this background of strong commodity markets, Drax began to realise some early returns from investments in plant management and maintenance. The improvement of plant performance compared to 2004 was very positive and directly translated into improved safety, availability and reliability.

### **Energy Sales and Other Income**

In the year, Drax Power made net sales of 23.2TWh (2004: 22.9TWh) of electricity at an average capture price of £33.9/MWh (2004: £22.5/MWh). The capture price achieved reflects the impact of power sold forward in 2003 and 2004 for delivery in 2005, as well as market prices prevailing in 2005.

Power prices rose significantly during 2005 as reflected in the Drax capture price. For instance, the price of the forward contract for power delivered in the six months starting October 2005 rose 49% between the beginning of the year and the start of delivery in October.

Drax makes sales of other products and services as well as contracted power. In 2005 these sales totalled £32 million.

### **Fuel Procurement**

#### *Coal*

Drax burnt approximately 9.3 million tonnes of coal in 2005, with around 60% being sourced from the UK and 40% internationally. During 2005 we paid an average price of £37.28/tonne (2004: £32.74/tonne) for our coal, including the cost of delivery to the power station. International coal prices fell from a peak of \$75/tonne early in the year to about \$52/tonne at the close.

#### *Biomass – Naturally Grown Fuel*

As well as coal Drax burns renewable biomass material which has the twin benefits of reducing CO<sub>2</sub> emissions and providing an additional revenue source through the sales of ROCs and LECs. During 2005 we burnt over 235,000 tonnes of biomass compared with 95,000 tonnes in 2004. We made significant progress during the year in the development of energy crops grown by local farmers. Contracts are being arranged to grow and to deliver energy crops over the next decade. Work continues to source additional energy crops and other cost effective biomass.

### **EU Emissions Trading Scheme**

On 1 January 2005 the EU Emissions Trading Scheme in respect of carbon allowances commenced. Phase I of the scheme covers 2005-2007 and Phase II will cover 2008-2012. Drax has an annual allocation granted by the UK Government of 14.55 million tonnes of allowances in Phase I. In 2005 we purchased a further 6.3 million tonnes of allowances as power was generated at volumes beyond those supported by the allocation. Carbon prices rose through 2005, opening the year at around €8/tonne and closing at over €20/tonne.

## **Trading**

The trading function covers all the commodity aspects of our operations including power, fuel, carbon allowances, renewable generation incentives, and grid services. The principal objectives of our trading strategy are to optimise the physical inputs and outputs of the plant, and to enhance the value of the business while delivering some stability in value through commodity price cycles. An important aspect of capturing value is exploiting the optionality of the power plant through its flexibility.

Drax's access to commodity markets was greatly constrained during the year by the relatively poor credit status of Drax Power Limited, the trading counterparty. This was a result of the high leverage of the Drax Group. On the refinancing of the Group on 15 December 2005, the credit status of Drax Power Limited was greatly improved as reflected in the investment grade rating granted to the entity by Standard & Pools.

## **Operations**

### *Health and Safety*

Health and safety remains our highest priority. The year 2005 was the first full year operating the DuPont™ STOP™ behaviour based safety system which we have implemented as a vehicle to deliver a step change in safety culture. In addition, we have focussed on developing simple clear systems, improved communication, detailed safety incident reporting and follow-up. Overall, recordable personal injury rates have reduced by some 40% versus 2004.

### *Load Factor and Availability*

The plant load factor for the year was 73.9% (2004: 69.1%) with an availability of 87.2% (2004: 81.3%). We only seek to generate electricity when it is profitable to do so. Thus we target profitability rather than production volumes. A key performance metric for the plant is availability. Last year saw improvements in both the planned and forced outage rates, with a strong downward trend in forced outage rate over the four quarters of 2005 resulting in the best full year performance since 1997.

### *Investment in Operations*

We continue to invest in plant and equipment with four main objectives in mind: to meet future environmental and safety legislative requirements; to facilitate fuel diversity; to support reductions in the forced outage rate; and to improve plant efficiency.

To meet the 2008 Large Combustion Plant Directive ("LCPD") requirements for oxides of nitrogen emissions standards we have a programme to install Boosted Over Fire Air ("BOFA") equipment on each of the six units. During 2005, two units have had BOFA installed; one of the units has been commissioned and has successfully completed all of its performance tests meeting the design specification in full. Construction will start in 2006 to install BOFA systems on the remaining four units in time for the 2008 change. New process control systems together with BOFA and new instrumentation, designed to deliver continuous emissions monitoring across the units, will ensure compliance with LCPD limits for oxides of sulphur and nitrogen, and particulates.

Fuel diversity projects include petcoke and biomass. Drax has invested in petcoke handling and blending facilities during the year and commenced an 18 month trial burn on one unit in June 2005. Air quality monitoring both before and during the trial has shown that there has been no material increase in pollutants measured. We expect to apply for a licence for commercial burn commencing in 2007. Although the early results from the trials are encouraging, there can be no guarantee that consent to burn petcoke in some or all of the units will be granted. A biomass "Direct Injection" system was installed on one unit during August and has proved to be an effective way of delivering larger volumes of prepared biomass to the boiler than is possible through the coal pulverising mills. Drax has the potential to install at modest cost such a system on each unit should the investment criteria be met.

Drax recognises the potential to improve operating and thermal efficiency leading to reduced fuel costs and emission rates. Examples of work undertaken in 2005 are investment in the flue gas desulphurisation facility to improve scrubbing efficiency and a project to improve boiler heat transfer when burning imported coal. Looking forward Drax is exploring several turbine enhancements and feed system upgrades with the objective of further improving efficiency and reducing consumption.

## **Regulatory Matters**

### *Energy Review*

On 23 January 2006, the UK Government launched its Energy Review (the "Review"). The Review promises to be broad in scope, considering both energy supply and demand and, importantly, within it, all energy sources for power generation. We welcome the Review as an opportunity to increase awareness of the need for coal-fired generation in the long term energy mix of the country. Given the right policy framework, we believe that coal-fired generation can contribute to the Government's key energy policy objectives of delivering security of supply and affordability, and tackling climate change. We are fully engaged with the Government on the Review. We will be seeking clarity and consistency of policy from Government to support term investments in the sector, the maintenance of an open and competitive market for power generation and equality for all forms of renewable generation. In particular we will be seeking a relaxation of the 10% cap on co-fired biomass Renewables Obligation Certificates which becomes effective on 1 April 2006.

### *Large Combustion Plant Directive*

On 3 February 2006, under LCPD regulations, approximately 20GW of UK coal plant "opted in" with a further 12GW "opted out". Those opted in will be required to comply with the emissions regulations set down in the LCPD. Those opted out are limited to 20,000 operating hours post 2007. Drax "opted in" under the National Emissions Reduction Plan the ("NERP"), the alternative being Emission Limit Values ("ELV") on the basis that this will serve to retain the optionality and flexibility of the plant and therefore the opportunity to add value. Under the NERP, coal generators are subject to annual emission limits relative to historic generation levels whilst under ELV, there is a 48 hour emission constraint.

### *EU Emissions Trading Scheme*

During the course of 2006, across the European Union each country's National Allocation Plan ("NAP") for Phase II of the Emissions Trading Scheme will be announced. Drax is active in the UK Government's consultation process on the UK Phase II NAP.

## **Outlook**

The refinancing of the Group together with the listing on 15 December 2005 transformed the capital structure of Drax. The new capital structure enables us to align the operational, trading and financial strategies of the business to deliver greater shareholder value. The focus going forward is to deliver this value.

Key to our success will be the sustained performance of the Drax team to improve on the good results achieved in 2005. We will continue to invest in the development of our staff with a keen focus on the performance culture that is now well established.

Within the business, work will continue on improving plant performance and seeking areas to enhance the business by further developing fuel and product optionality. There are a number of EBITDA enhancement projects which we identified in 2005 which we will work to deliver in 2006 and 2007. In addition, the improvement in credit status has significantly enhanced our ability to trade in the power, coal and carbon markets. It has provided access to greater depth and tenor in all of these markets. Our strategy is to extend our forward contracts whilst retaining a significant exposure to the commodity markets in order to exploit the full value of the optionality of the power plant and the expertise of the Drax trading team.

As at 3 March 2006 Drax had contracted 75% of expected 2006 output at an average price of £46.9/MWh, and 47% of expected 2007 output at an average price of £49.2/MWh. Corresponding fixed price coal and carbon have been secured to underpin these sales. Overall our volume of forward power sales has grown by over 49% in the 11 weeks from 15 December to 3 March 2006 reflecting both our increased credit capacity and counterparty interest.

Given current trading expectations and the continued development of hedge position coupled with effective cash management, we expect during 2006 to start to deliver on our commitment to return substantially all excess cash flow to our shareholders.

We will remain active in the regulatory debate. We believe coal is critical to the UK energy mix going forward if the Government is to achieve its objectives of delivering security of supply, affordability and tackling climate change where biomass burning with coal has much to contribute. We will be seeking clarity, coherence and consistency of Government policy and an equal treatment of biomass co-fired generation with other renewable energy.

Dorothy Thompson  
Chief Executive

## FINANCIAL REVIEW

### Overview

Drax Group plc was introduced to the Official List of the UK Listing Authority and its ordinary shares commenced trading on the London Stock Exchange on 15 December 2005. Drax Group plc is the ultimate holding company of Drax Power Limited, the owner of Drax Power Station.

The principal activity of Drax is the operation of the power station and the trading of the electricity it produces. Drax is the largest coal-fired power station in Western Europe, with a nominal capacity of 3,960MW and a registered generating capacity of 3,870MW. All electricity generated is sold in the wholesale market or through the balancing mechanism, or used by the power station. Fuel is purchased from a variety of UK and international sources. CO2 emissions allowances required by the Group in excess of its allocation under the UK National Allocation Plan (the "UK NAP") are also purchased from a variety of UK and international sources.

For the year ended 31 December 2005, Drax produced an EBITDA of £239 million and an operating profit of £354 million (including exceptional items and unrealised losses on derivative contracts which together improved operating profit by £146 million). For the year ended 31 December 2004 EBITDA was £90 million and operating profit was £55 million.

### Results of operations

#### Year ended 31 December 2005 compared to year ended 31 December 2004

	Year ended 31 December	
	2005	2004
	£ million	£ million
<b>Revenue</b>		
Revenue from generation	848.8	549.3
Revenue associated with power purchases	79.8	74.8
	<b>928.6</b>	<b>624.1</b>
<b>Fuel costs<sup>(1)</sup></b>		
Fuel costs in respect of generation	(459.7)	(309.9)
Costs of power purchases	(79.8)	(74.8)
	<b>(539.5)</b>	<b>(384.7)</b>
<b>Gross margin</b>	<b>389.1</b>	<b>239.4</b>
Other operating expenses excluding depreciation , amortisation and exceptional items <sup>(2)</sup>	(149.7)	(151.9)
Other income	-	2.5
<b>EBITDA<sup>(3)</sup></b>	<b>239.4</b>	<b>90.0</b>
Depreciation and amortisation	(31.2)	(35.0)
Other operating income – net exceptional credit	263.3	-
Unrealised losses on derivative contracts	(117.0)	-
<b>Operating profit</b>	<b>354.5</b>	<b>55.0</b>
Interest receivable	23.5	4.6
Interest payable and similar charges	(114.4)	(101.2)
<b>Profit/(loss) before tax</b>	<b>263.6</b>	<b>(41.6)</b>
Tax credit	18.8	35.1
<b>Profit/(loss) for the period attributable to equity shareholders from continuing operations</b>	<b>282.4</b>	<b>(6.5)</b>

(1) Fuel costs comprises the fuel costs incurred in the generation process, predominantly coal, together with oil and, since 2003, biomass costs. Since 1 January 2005, CO2 emissions allowance costs have also become a substantial component of fuel costs. Fuel costs also include the cost of power purchased to meet power sale commitments.

(2) Other operating expenses excluding depreciation, amortisation and exceptional items principally include salaries, maintenance costs, connection charges (BSUoS, TNUoS) and business rates.

(3) EBITDA is defined as profit before interest, tax, depreciation and amortisation, exceptional items and unrealised losses on derivative contracts (as defined in IAS 39).

Drax Group's revenues from generation during the year ended 31 December 2005 were £849 million, compared to £549 million during the corresponding period in 2004, an increase of £300 million (or 55%). This increase was mainly due to increases in average electricity capture prices over the period. Power sold in the year ended 31 December 2005 was 23.2TWh, compared to 22.9TWh in the corresponding period in 2004.

Included within revenues from generation are revenues from the sale of by-products (ash and gypsum), the provision ancillary services, the sale of ROCs, LECs and SO<sub>2</sub> emissions allowances. In 2005 these revenues totalled £32 million compared with £26 million in 2004.

Drax purchases power in the market when the cost of power in the market is below Drax's marginal costs of production in respect of power previously contracted by the Group and to cover any shortfall in generation. The cost of purchased power has remained relatively constant between each of the two years. Under IFRS, the costs of power purchased is treated as fuel costs, and revenue has been adjusted accordingly.

Drax's fuel costs in respect of generation during the year ended 31 December 2005 were £460 million, compared to £310 million during the comparable period in 2004, an increase of £150 million (or 48%). This increase was primarily due to the cost of CO<sub>2</sub> emissions allowances (£87 million in 2005) and an increase in the cost of coal and other fuels.

Reflecting the above factors, Drax's gross margin, being revenues less fuel costs, increased from £239 million in the year ended 31 December 2004 to £389 million in the year ended 31 December 2005, an increase of £150 million (or 63%).

Drax's other operating expenses excluding depreciation, amortisation and exceptional items were broadly flat at £152 million in the year ended 31 December 2004 and £150 million in the corresponding period in 2005.

EBITDA was £239 million in 2005 which was £149 million higher than for 2004. The improvement in EBITDA reflected the improvement in gross margin.

Depreciation and amortisation in the year ended 31 December 2005 was £4 million lower at £31 million compared with the same period in 2004. The depreciation and amortisation charge for 2004 included £2 million in respect of losses on disposal of property, plant and equipment.

Exceptional operating income for the year ended 31 December 2005 of £263 million, is comprised of credits of £19 million due to the reversal of provisions relating to impairment of tangible fixed assets and £311 million as a result of three distributions received by Drax under the TXU Claim. These items were partially offset by a charge for cash and share-based payment transactions under the Group's Long Term Incentive Plan ("LTIP") of £38 million, as well as costs incurred with respect to the Refinancing and Admission of £29 million. Additional information relating to these exceptional items is included in the Notes to the Consolidated Financial Statements. Drax had no exceptional operating income or expenses in the year ended 31 December 2004.

IAS 32 and IAS 39, the International Financial Reporting Standards in respect of derivatives and financial instruments, are applicable to Drax for the period from 1 January 2005. As a result of applying these standards, unrealised losses of £223 million and unrealised gains of £8 million on derivative contracts were recognised within liabilities and assets respectively at 31 December 2005 (as compared to unrealised losses of £20 million and unrealised gains of £15 million at 1 January 2005). The unrealised losses principally relate to the mark-to-market of Drax's forward contracts for power yet to be delivered and some coal contracts, which meet the definition of derivatives under IAS 39. The out-of-the-money position mainly reflects prices in Drax's forward sales contracts for power against rising market prices for power.

For the period from 1 January 2005 to 30 June 2005, mark-to-market movements on these contracts were reflected directly in the income statement, as appropriate hedge accounting documentation had not been put in place. This resulted in an expense of £117 million relating to unrealised losses on derivative contracts being recognised in the income statement for 2005.

For the purposes of IAS 39, from 1 July 2005, the Group has put in place appropriate hedge accounting documentation to enable it to achieve hedge accounting for a large proportion of its commodity contracts. As a result, mark-to-market movements on contracts which are now considered to be effective hedges are recognised through the hedge reserve.

Reflecting the above factors, Drax's operating profit, increased from £55 million in the year ended 31 December 2004 to £354 million in the year ended 31 December 2005, an increase of £299 million. Operating profit for 2005 includes exceptional operating income of £263 million and unrealised losses on derivative contracts of £117 million as described above.

Interest payable and similar charges in the year ended 31 December 2005 were £114 million, compared to £101 million in the same period in 2004, an increase of £13 million (or 13%). The increase reflects a reduction in interest payable on borrowings, principally as a result of repayments of the Group's B Debt following receipts under the TXU Claim, offset by a charge of £23 million resulting from the termination of interest rate swap contracts on Refinancing and Admission.

Interest receivable of £24 million in the year ended 31 December 2005 includes a credit of £18 million in respect of previously recognised unrealised losses on the terminated swap contracts, accounted for under IAS 39 from 1 January 2005.

Drax's tax credit during the year ended 31 December 2005 was £19 million, compared to a tax credit of £35 million during the comparable period in 2004. The tax credit in 2005 reflects the utilisation of tax losses brought forward from earlier years, which more than offsets the profit before tax for the year. The tax credit for 2004 reflects the loss for the year and the tax effect of the financing structure.

Reflecting the above factors, Drax had a profit for the year from continuing operations of £282 million in the year ended 31 December 2005, compared to a loss of £7 million in the year ended 31 December 2004.

### **Refinancing and Admission**

The Refinancing and Admission took place on 15 December 2005, resulting in the creation of a new holding company, Drax Group plc. Pursuant to the schemes of arrangement under which the Refinancing and Admission was implemented, the existing debt of the Group was settled, partially through the issue of new debt, and partially through the issue of ordinary shares in Drax Group plc. Also on 15 December 2005, Drax Group plc was introduced to the Official List of the UK Listing Authority and its ordinary shares commenced trading on the London Stock Exchange.

The Refinancing and Admission involved a cash payment of £112 million to A2 Debt holders in respect of an equal amount of A2 Debt, and an exchange of the balance of A2 and A3 Debt of £433 million for new ordinary shares in Drax Group plc. In addition, the existing ordinary shares of Drax Group Limited, the previous holding company, were exchanged for new ordinary shares in Drax Group plc. The outstanding A1 Debt of £388 million and B Debt of £82 million was repaid at par, and previously deferred interest on B Debt and accrued interest on each of the tranches of debt of £63 million was repaid in full. Interest rate swap contracts with a notional value of £400 million, principally related to the A1 Debt, were also cancelled, resulting in a termination payment of £23 million.

The new ordinary shares in Drax Group plc issued to A2/A3 Debt holders and existing shareholders of Drax Group Limited were issued by way of schemes of arrangement, and therefore did not constitute an offer of securities to the public. Consequently, Admission took place by way of an introduction.

At the same time, the Group entered into new debt facilities, which included a Term loan of £500 million and a Bridge loan of £77 million, as well as a letter of credit facility of £200 million and a revolving credit facility of £100 million. The Term loan is subject to a fixed amortisation profile beginning on 30 June 2006 and ending on 31 December 2010. The Bridge loan has first priority over the TXU claim and the proceeds thereof. The total costs of the Refinancing and Admission amounted to £45 million, of which £29 million has been included within exceptional other operating expenses in the income statement. The remaining amount of £16 million has been deducted from debt and is being amortised to interest payable over the duration of the Group's new debt facilities.

### **TXU Claim**

In 1999, whilst owned by AES Corporation, Drax entered into the TXU Hedging Contract, a 15-year power purchase agreement with TXU Europe Energy Limited ("TXU"). TXU defaulted on the contract in 2002, and together with certain other members of the TXU Group, filed for administration in the UK. On terminating the contract, Drax issued a claim (the "TXU Claim"), ultimately agreed by the Administrators of TXU at approximately £348 million (including VAT), in respect of unpaid power purchased by TXU and liquidated damages for default under the contract.

On 30 March 2005, the Group received a first distribution of £205 million (net of VAT and a payment by the Group to TXU Europe Limited) under the TXU Claim. This amount was subsequently paid to B Debt holders on 15 April 2005. On 2 August 2005, the Group received a second distribution of £51 million (net of VAT) under the TXU Claim. This amount was subsequently paid to B Debt holders on 17 August 2005.

On 19 January 2006, the Group received a third distribution of £55 million (net of VAT) under the TXU Claim. The third distribution has been recognised in the income statement for the year ended 31 December 2005, and together with the first and second distribution, resulted in exceptional operating income of £311 million for the year. The third distribution is included as a receivable balance at 31 December 2005 and was used to make a prepayment of the Group's Bridge loan facility on 23 January 2006.

At the time of approving the financial statements the Group had a further £26 million (including VAT) outstanding under the TXU Claim. The directors have reasonable expectations that the Group will receive repayment of this amount broadly in full by early 2007.

### Liquidity and Capital Resources

Net debt reduced to £462 million in 2005 from £1,208 million in 2004. The main reasons for the reduction were the improvement in gross margin, receipt of distributions from the TXU Claim and the exchange of debt for equity as part of the Refinancing and Admission.

Cash and cash equivalents stood at £88 million on 31 December 2005 compared with £38 million on 31 December 2004. The increase in cash and cash equivalents is analysed in the table below.

### Analysis of Cash Flows

	Year ended 31 December	
	2005	2004
	£ million	£ million
Net cash generated from operating activities	348.5	17.1
Net cash used in investing activities	(25.0)	(13.7)
Net cash (used in)/ generated from financing activities	(273.2)	0.5
<b>Net increase in cash and cash equivalents <sup>(1)</sup></b>	<b>50.3</b>	<b>3.9</b>

(1) For the purposes of the cash flow statements, cash and cash equivalents excludes amounts held in escrow as at 31 December 2005 and in debt service reserve accounts as at 31 December 2004. The movements in these accounts are included as a component of net cash generated from operating activities.

Net cash generated from operating activities was £349 million in the year ended 31 December 2005, compared to £17 million for the corresponding period in 2004, an increase of £332 million. The increase includes the first and second distributions received in 2005 under the TXU Claim of £256 million, as well as the impact of improved business performance, gross margin having increased by £150 million in 2005. These items were partially offset by an increase in interest paid of £66 million, which includes payment of previously deferred interest of £25 million as well as £23 million related to the termination of interest rate swap contracts on Refinancing and Admission.

Net cash used in investing activities was £25 million in the year ended 31 December 2005, compared to £14 million for the corresponding period in 2004. This reflected higher levels of capital expenditure in 2005.

Net cash used in financing activities was £273 million in the year ended 31 December 2005, compared to net cash generated from financing activities for the corresponding period in 2004 of £0.5 million. 2005 includes repayment of borrowings prior to the Refinancing and Admission of £268 million, which comprises repayment of B Debt of £256 million funded out of the first and second distributions under the TXU Claim, as well as a prepayment of £12 million of A1 Debt on 30 June 2005. Also included in 2005 is repayment of borrowings on Refinancing and Admission of £583 million, which comprises A1 and B Debt repayment at par of £388 million and £82 million respectively, as well as A2 cash consideration of £112 million. These debt repayments were partially met by new debt issued on Refinancing and Admission of £577 million.

Reflecting the above factors, cash and cash equivalents increased by £50 million in the year ended 31 December 2005, compared to £4 million for the corresponding period in 2004. Cash and cash equivalents was £88 million at 31 December 2005, compared to £38 million at 31 December 2004. Drax's policy is to invest available cash in short term bank deposits.

### Capital Resources

On 15 December 2005 the Group's existing debt was replaced by new debt facilities comprising a £500 million 5 year amortising Term loan facility, a £200 million letter of credit facility, a £100 million revolving credit facility, and a £77 million Bridge loan facility. The Term loan facility is secured on a pari passu basis

with the letter of credit facility and the revolving credit facility and any other permitted secured indebtedness. The Group's debt is guaranteed and secured directly by each of the principal subsidiaries of the Company and also by the Company. Standard & Poor's Ratings Group ("S&P") has assigned a BBB senior secured debt rating with a recovery rating of "1" to the Term loan facility, the letter of credit facility and the revolving credit facility. Drax is required to fund a debt service reserve account if it does not meet the specified historic annual debt service cover ratio on any of the six-monthly calculation dates, with the first calculation date being on 31 December 2006.

The letter of credit facility can be used to provide letters of credit to counterparties or exchanges in relation to Drax's trading business. The final maturity date of the letter of credit facility is 15 December 2012. The Group guarantees the obligations of a number of banks in respect of the letters of credit issued by those banks to counterparties of the Group. As at 31 December 2005 the Group's contingent liability in respect of these guarantees amounted to £77 million (2004: £27 million).

The revolving credit facility can be used to finance working capital requirements. It may also be used to provide letters of credit up to a maximum of £100 million or provide cash collateral, to the extent that counterparties do not accept letters of credit, up to a maximum of £20 million. The final maturity date is 15 December 2010.

The Bridge loan facility must be repaid in full by 31 December 2008. Proceeds under the TXU Claim must be applied to repay the Bridge loan facility. Following a third distribution under the TXU Claim on 19 January 2006, £55 million of the Bridge loan was repaid on 23 January 2006 leaving a balance of £22 million outstanding. The third distribution has been recognised in the income statement for the year ended 31 December 2005 and has been included as a receivable balance at 31 December 2005. The debt which was repaid on 23 January 2006 has been shown as repayable within one year at 31 December 2005.

Under the new debt facilities, the group can incur further financial indebtedness up to an aggregate of £100 million so long as S&P provides written confirmation that the Term loan facility will maintain an investment grade credit rating of at least BBB- following the incurrence of the further secured indebtedness. In addition, Drax can enter into additional finance leases up to an aggregate value of £10 million. The Group can also incur overdraft and other short term borrowings or facilities not to exceed £15 million and subject to certain other restrictions. The new debt facilities may be prepaid without penalty.

### **Capital Expenditure**

Capital expenditure was £25 million in 2005 compared with £14 million in 2004. The increase in capital expenditure in 2005 was in support of fuel diversification (biomass and petcoke), environmental compliance and meeting improved reliability and safety targets. We plan to invest £30 million in core capital expenditure in 2006, although we continue to explore other value added opportunities within the business.

### **Off-balance Sheet Arrangements**

Other than the letters of credit referred to above, no member of the Group has entered into any transactions with unconsolidated entities concerning financial guarantees, subordinated retained interests, derivative instruments or other contingent arrangements that expose Drax to material continuing risks, contingent liabilities, or any other obligation under a variable interest in an unconsolidated entity that provides financing, liquidity, market risk or credit risk support to Drax.

### **Profit Forecast for the Year Ended 31 December 2005**

The prospectus prepared in connection with the Refinancing and Admission included a forecast of EBITDA, profit before interest and tax ("Operating Profit"), and net profit before interest expense and tax (together "the Forecast") for the year ended 31 December 2005.

The basis of preparation and principal assumptions for the Forecast are set out on pages 154 and 155 of the prospectus. The assumptions included that the Forecast was based on average prices of electricity and coal prevailing over the five days up to and including 21 October 2005 and it was assumed that there would be no change in the future prices of electricity and coal. In addition, following the completion of a structured contract with EDF Trading Limited in October 2005, the prospectus noted that the Group had substantially fixed the cost of CO2 emissions allowances for 2005.

The following table provides a comparison of the Forecast to the actual results for the year ended 31 December 2005 and also compares forecast and actual EBITDA excluding exceptional items and unrealised losses on derivative contracts.

	Year ended 31 December		
	<u>Forecast</u>	<u>Actual</u>	<u>Variance</u>
	£ million	£ million	£ million
<b>EBITDA - before exceptional items and unrealised losses on derivative contracts</b>	<b>220</b>	<b>239</b>	<b>19</b>
Exceptional credit related to termination of TXU Contract and financial restructuring	275	330	55
LTIP expenses arising from cash and share-based payment transactions	(38)	(38)	-
Estimated fees and expenses of the Refinancing and Admission	(27)	(29)	(2)
Unrealised losses on derivative contracts	(119)	(117)	2
<b>EBITDA - after exceptional items and unrealised losses on derivative contracts</b>	<b>311</b>	<b>385</b>	<b>74</b>
Depreciation and amortisation	(32)	(31)	1
<b>Operating profit</b>	<b>279</b>	<b>354</b>	<b>75</b>
Interest income <sup>(1)</sup>	5	6	1
<b>Net profit before interest expense and tax</b>	<b>284</b>	<b>360</b>	<b>76</b>

<sup>(1)</sup> Interest income excludes a credit of £18 million included in interest receivable in respect of previously recognised unrealised losses on interest rate swap contracts terminated on Refinancing and Admission. This credit is offset by a charge of £23 million included in interest payable representing the cash cost of terminating the swap contracts.

EBITDA before exceptional items and unrealised losses on derivative contracts was £19 million higher than forecast largely due to an improvement of approximately £17 million in gross margin, principally reflecting higher electricity prices captured for November and December compared to market prices on 21 October 2005, and increased generation as a result of lower than forecast forced outages for the final quarter of 2005. The significant increase in EBITDA after exceptional items and unrealised losses on derivative contracts is largely due to the improvement in gross margin noted above and £55 million of exceptional operating income arising from the third distribution under the TXU Claim, received on 19 January 2006. As previously noted, the third distribution has been recognised in the income statement for the year ended 31 December 2005.

## Distribution Policy

The Board has established a distribution policy which recognises Drax's exposure to commodity markets and comprises two elements.

The Board intends that Drax will pay a stable amount (£50 million) by way of ordinary dividends each year (the base dividend). The base dividend will comprise an interim dividend and a final dividend and it is expected that the interim dividend will represent approximately one third of the total anticipated base dividend for each year. Drax expects to pay its first interim dividend for the half year ending 30 June 2006 in Autumn 2006.

In addition to the base dividend, substantially all of any remaining cash flow subject to the availability of reserves and after making provision for debt payments, debt service requirements (if any), capital expenditure, and other expected business requirements will be distributed to shareholders. A significant cash surplus is expected to arise in 2006. The amount will be dependent on a number of factors including commodity prices and plant performance. Work has commenced to identify the most appropriate method for returning surplus cash to shareholders and it is expected that the proposed method of return will be advised at the company's AGM in May 2006 and that this will be followed by an indication of the likely range of distribution, timing and shareholder approval process in a Trading Update given at the end of June.

## Consolidated income statements

	Notes	Years ended 31 December	
		2005 £'m	2004 £'m
<b>Continuing operations</b>			
Revenue		928.6	624.1
Fuel costs		(539.5)	(384.7)
Other operating expenses excluding exceptional items		(180.9)	(186.9)
Other exceptional operating income	2	329.9	-
Other exceptional operating expenses	2	(66.6)	-
Total other operating income / (expenses)		82.4	(186.9)
Other income		-	2.5
Unrealised losses on derivative contracts		(117.0)	-
<b>Operating profit</b>		<b>354.5</b>	<b>55.0</b>
Interest payable and similar charges		(114.4)	(101.2)
Interest receivable		23.5	4.6
<b>Profit / (loss) before tax</b>		<b>263.6</b>	<b>(41.6)</b>
Tax credit	3	18.8	35.1
<b>Profit / (loss) for the year attributable to equity shareholders from continuing operations</b>		<b>282.4</b>	<b>(6.5)</b>
<b>Earnings per share from continuing operations expressed in pence per share</b>			
- Basic and diluted	4	98.0	(2.4)

The results above relate to the continuing operations of the Group.

## Consolidated statements of recognised income and expense

	Notes	Years ended 31 December	
		2005 £'m	2004 £'m
<b>Profit / (loss) for the year</b>		<b>282.4</b>	<b>(6.5)</b>
Actuarial losses on defined benefit pension schemes		(8.2)	(6.1)
Deferred tax on actuarial losses on defined benefit pension schemes	3	2.5	1.8
Initial recognition of net mark-to-market liability on adoption of IAS 32 and IAS 39		(5.6)	-
Deferred tax recognised on adoption of IAS 32 and IAS 39	3	1.7	-
Fair value losses on cash flow hedges		(109.7)	-
Deferred tax recognised on fair value losses on cash flow hedges	3	32.9	-
<b>Net losses not recognised in income statement</b>		<b>(86.4)</b>	<b>(4.3)</b>
<b>Total recognised income / (expense) for the year attributable to equity shareholders</b>		<b>196.0</b>	<b>(10.8)</b>

## Consolidated balance sheets

	Notes	As at 31 December	
		2005 £'m	2004 £'m
<b>Assets</b>			
<b>Non-current assets</b>			
Property, plant & equipment		1,050.5	1,037.7
Derivative financial instruments		0.3	-
		<b>1,050.8</b>	<b>1,037.7</b>
<b>Current assets</b>			
Inventories		67.8	45.2
Trade and other receivables		192.9	69.5
Derivative financial instruments		7.7	-
Cash at bank and in hand	5	99.1	75.7
		<b>367.5</b>	<b>190.4</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Financial liabilities:			
- Borrowings	6	101.4	204.7
- Derivative financial instruments		173.0	-
Trade and other payables		176.1	66.9
Current tax liabilities		5.2	2.5
		<b>455.7</b>	<b>274.1</b>
<b>Net current liabilities</b>		<b>(88.2)</b>	<b>(83.7)</b>
<b>Non-current liabilities</b>			
Financial liabilities:			
- Borrowings	6	460.1	1,078.6
- Derivative financial instruments		49.6	-
Deferred tax liabilities		185.3	246.7
Retirement benefit obligations		44.7	36.5
Other non-current liabilities		0.7	25.8
Provisions		2.0	0.5
		<b>742.4</b>	<b>1,388.1</b>
<b>Net assets / (liabilities)</b>		<b>220.2</b>	<b>(434.1)</b>
<b>Shareholders' equity</b>			
Issued equity		40.7	-
Share premium		420.7	0.5
Merger reserve		710.8	445.1
Capital reserve		-	293.5
Hedge reserve		(76.8)	-
Retained losses		(875.2)	(1,173.2)
<b>Total shareholders' equity</b>	7	<b>220.2</b>	<b>(434.1)</b>

## Consolidated cash flow statements

	Notes	Years ended 31 December	
		2005 £'m	2004 £'m
<b>Cash generated from operations</b>	<b>8</b>	<b>462.3</b>	<b>73.4</b>
Income taxes paid		(2.8)	(0.4)
Decrease in restricted cash	<b>5</b>	26.9	16.9
Interest paid prior to the Refinancing and Admission		(57.5)	(77.4)
Interest paid on the Refinancing and Admission	<b>6</b>	(86.2)	-
Interest received		5.8	4.6
<b>Net cash generated from operating activities</b>		<b>348.5</b>	<b>17.1</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(25.0)	(13.7)
<b>Net cash used in investing activities</b>		<b>(25.0)</b>	<b>(13.7)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings prior to the Refinancing and Admission	<b>6</b>	(267.6)	-
Repayment of borrowings on the Refinancing and Admission	<b>6</b>	(582.6)	-
Debt issued as a result of the Refinancing and Admission	<b>6</b>	577.0	-
Net proceeds on issue of ordinary share capital		-	0.5
<b>Net cash (used in) / generated from financing activities</b>		<b>(273.2)</b>	<b>0.5</b>
<b>Net increase in cash and cash equivalents</b>		<b>50.3</b>	<b>3.9</b>
Cash and cash equivalents at beginning of the period	<b>5</b>	37.5	33.6
<b>Cash and cash equivalents at end of the period</b>	<b>5</b>	<b>87.8</b>	<b>37.5</b>

# Notes to the consolidated financial information

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## 1 Basis of preparation

### a) General Information

The consolidated financial information for Drax Group plc (the "Company") and its subsidiaries (together "the Group") set out in this preliminary announcement has been derived from the audited consolidated financial statements of the Group for the year ended 31 December 2005 (the "financial statements"). This preliminary announcement does not constitute the financial statements. The financial statements were approved by the Board of directors on 7 March 2006. The report of the auditors on the financial statements was unqualified and did not contain a statement under Section 237 (2) or (3) of the Companies Act 1985.

The Annual Report will be posted to shareholders by 7 April 2006 and will be available on request from the Company Secretary, Drax Group plc, Drax Power Station, PO Box 3, Selby, North Yorkshire, YO8 8PQ. The Annual General Meeting will be held at The City Presentation Centre, 4 Chiswell Street, London EC1Y 4UP at 11.00am on 12 May 2006. The financial statements will be delivered to the Registrar of Companies following the Annual General Meeting.

### b) International Financial Reporting Standards ("IFRS")

The financial statements have been prepared on the basis of all applicable IFRS including all International Accounting Standards ("IAS"), and all applicable Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued by the International Accounting Standards Board ("IASB") and endorsed by the EU.

The financial statements are the first prepared by the Group in accordance with accounting standards as adopted for use in the EU and as such take account of the requirements and options in IFRS1 "First-time Adoption of International Financial Reporting Standards" as they relate to the comparative financial information.

In particular, in accordance with the transitional arrangements set out in IFRS 1, the Group has elected not to restate the comparative financial information to show the effect of IAS 32 "Financial Instruments: Disclosure and Presentation" and IAS 39 "Financial Instruments: Recognition and Measurement" and, as a consequence, for the year ended 31 December 2004, financial instruments continue to be accounted for in accordance with the Group's previous policies for financial instruments under UK GAAP. In contrast, for the year ended 31 December 2005, IAS 32 and IAS 39 have been applied.

For the purposes of IAS 39, from 1 July 2005, the Group has put in place appropriate hedge accounting documentation to enable it to achieve hedge accounting for a large proportion of its commodity contracts. As a result, mark-to-market movements on contracts which are now considered to be effective hedges are recognised through the hedge reserve. For the period from 1 January 2005 to 30 June 2005, mark-to-market movements on these contracts were reflected directly in the income statement, as appropriate hedge documentation had not been put in place.

### c) Refinancing and Admission

The Group underwent a financial restructuring (the "Refinancing and Admission") effective on 15 December 2005 which resulted in the creation of a new holding company, Drax Group plc. Pursuant to the schemes of arrangement under which the Refinancing and Admission was implemented, the existing debt of the Group was settled, partially through the issue of new debt and partially through the issue of ordinary shares in Drax Group plc. Also on 15 December 2005, Drax Group plc was introduced to the Official List of the UK Listing Authority and its ordinary shares commenced trading on the London Stock Exchange.

Under IFRS 3 "Business Combinations", the insertion of Drax Group plc as the new holding company has been accounted for as a reverse acquisition, whereby Drax Group Limited (being the previous Group holding company), the legal subsidiary, acquired Drax Group plc, the legal parent company. The impact of the Refinancing and Admission on the Group's debt and share capital is illustrated in notes 6 and 7 respectively.

## Notes to the consolidated financial information

### 2 Other exceptional operating income and expenses

	Years ended 31 December	
	2005 £'m	2004 £'m
<b>Other exceptional operating income:</b>		
Income from TXU administration	310.9	-
Reversal of impairment of tangible fixed assets	19.0	-
<b>Total other exceptional operating income</b>	<b>329.9</b>	<b>-</b>
<b>Other exceptional operating expenses:</b>		
LTIP expenses arising on cash and share-based transactions	(37.6)	-
Refinancing and Admission fees and expenses	(29.0)	-
<b>Total other exceptional operating expenses</b>	<b>(66.6)</b>	<b>-</b>

#### Income from TXU administration

Income from the TXU administration represents the first three distributions received by the Group from the Administrators of TXU. Proceeds from the first two distributions of £204.7 million and £51.1m (both net of VAT) were subsequently paid to B Debt holders on 15 April 2005 and 17 August 2005 respectively. The third distribution of £55.1 million (net of VAT) received on 19 January 2006 has been recognised in the income statement for the year ended 31 December 2005 and is included as a receivable balance at 31 December 2005. This amount was used to make a prepayment of the Group's Bridge loan facility on 23 January 2006 (note 6).

#### Reversal of impairment of tangible fixed assets

During the year to 31 December 2002, the Group performed an impairment review following the loss of its long term power purchase agreement with TXU and its related income streams. This resulted in the write down of goodwill to nil, and a provision for impairment of £20.4 million against tangible fixed assets, to write down the assets to their estimated recoverable amount.

In accordance with IAS 36 "Impairment of assets", the Group assessed at each subsequent reporting date whether there was any indication that the impairment loss recognised at 31 December 2002 should be reversed. As a result of the assessment performed at 30 June 2005 for the purposes of the financial information prepared in connection with the Refinancing and Admission, which highlighted significant increases in wholesale electricity prices that the Group has been able to achieve in its forward contractual position, the Group recorded a reversal of the tangible fixed asset impairment of £19.0 million. This represents a reversal of the total impairment loss recognised in respect of tangible fixed assets at 31 December 2002 after adjusting for depreciation.

#### Long Term Incentive Plan ("LTIP") expenses arising on cash and share-based transactions

Costs recognised in the income statement in relation to the Group's LTIP include expenses arising on share-based payment transactions of £25.2 million, expenses arising on cash-based payment transactions of £4.7 million and social security costs arising on share and cash-based payment transactions of £7.7 million.

#### Refinancing and Admission fees and expenses

The total costs of the Refinancing and Admission, including costs and expenses of or incidental to preparation of the Prospectus, Admission costs, registration fees and costs of printing and distribution as well as fees and expenses related to the Group's new debt facilities amounted to £44.7 million. £29.0 million of these costs have been included within other exceptional operating expenses in the income statement. The remaining £15.7 million has been deducted from debt and is being amortised to interest payable over the duration of the Group's new debt facilities (note 6).

### 3 Taxation

	Years ended 31 December	
	2005 £'m	2004 £'m
<b>Tax credit comprises:</b>		
Current tax	(5.5)	2.3
Deferred tax	24.3	32.8
	<b>18.8</b>	<b>35.1</b>

## Notes to the consolidated financial information

	Years ended 31 December	
	2005 £'m	2004 £'m
<b>Tax on items charged to equity:</b>		
Deferred tax on actuarial losses on defined benefit pension schemes	2.5	1.8
Deferred tax recognised on adoption of IAS 32 and IAS 39	1.7	-
Deferred tax recognised on fair value losses on cash flow hedges	32.9	-
	<b>37.1</b>	<b>1.8</b>

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

	Years ended 31 December	
	2005 £'m	2004 £'m
<b>Profit / (loss) before tax</b>	<b>263.6</b>	<b>(41.6)</b>
Profit / (loss) before tax multiplied by rate of corporation tax in the UK (30% for both years)	79.1	(12.5)
<b>Effects of:</b>		
Adjustments in respect of prior periods	(6.2)	(2.3)
LTIP tax deduction	(9.4)	-
Expenses not deductible for tax purposes	2.9	-
Tax effect of funding arrangements	(0.8)	(21.6)
Other	(0.1)	1.3
Tax losses utilised	(84.3)	-
<b>Total taxation (continuing operations)</b>	<b>(18.8)</b>	<b>(35.1)</b>

#### 4 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 year. The calculation of weighted average number of ordinary shares outstanding assumes that the ordinary shares in Drax Group plc issued to the existing shareholders of Drax Group Limited on Refinancing and Admission were in issue either at 1 January 2004 (to the extent that the related Drax Group Limited shares were in issue at 1 January 2004), or from the date of issue of Drax Group Limited shares (to the extent that the related Drax Group Limited shares were issued after 1 January 2004).

The Group has no contingently issuable shares. Accordingly, there is no difference between basic and diluted earnings per share. Reconciliations of the earnings and weighted average number of shares used in the calculation are set out below.

	Years ended 31 December	
	2005	2004
Earnings attributable to equity holders of the Company (£'m)	282.4	(6.5)
Weighted average number of shares (millions)	288.2	275.2
<b>Basic and diluted earnings per share (pence per share)</b>	<b>98.0</b>	<b>(2.4)</b>

## Notes to the consolidated financial information

### 5 Cash at bank and in hand

	As at 31 December	
	2005 £'m	2004 £'m
<b>Cash at bank and in hand:</b>		
Unrestricted cash at bank and in hand	87.8	37.5
Debt service reserve account	-	38.2
Escrow account	11.3	-
	<b>99.1</b>	<b>75.7</b>

Debt service reserve account balances were restricted cash deposits which could only be used for the purpose of debt service under the terms of the Group's previous debt facilities.

The escrow account represents cash paid into escrow prior to 15 December 2005 with respect to certain fees and expenses related to the Refinancing and Admission. The directors expect substantially all such fees and expenses will have been paid out of the escrow account by 31 March 2006.

Cash and cash equivalents includes the following for the purposes of the cash flow statement:

	As at 31 December	
	2005 £'m	2004 £'m
<b>Cash and cash equivalents:</b>		
Cash at bank and in hand per above	99.1	75.7
Less: debt service reserve and escrow accounts	(11.3)	(38.2)
	<b>87.8</b>	<b>37.5</b>

### 6 Financial liabilities – borrowings

	As at 31 December	
	2005 £'m	2004 £'m
<b>Current:</b>		
Term loan	46.3	-
Bridge loan	55.1	-
B Debt	-	204.7
	<b>101.4</b>	<b>204.7</b>
	As at 31 December	
	2005 £'m	2004 £'m
<b>Non-current:</b>		
Term loan	438.2	-
Bridge loan	21.9	-
A Debt	-	944.9
B Debt	-	133.7
	<b>460.1</b>	<b>1,078.6</b>

Following a prepayment of £11.7 million on 30 June 2005, £388.2 million of A1 Debt principal and £12.8 million of interest was outstanding prior to the Refinancing and Admission. Also prior to the Refinancing and Admission, £545.1 million of A2/A3 principal and £22.2 million of interest was outstanding. Following partial repayments of £204.7 million on 15 April 2005 after the first distribution from the Administrators of TXU and £51.1 million on 17 August 2005 after the second distribution, £82.4 million B Debt principal and £28.1 million of interest was outstanding prior to the Refinancing and Admission.

## Notes to the consolidated financial information

### Refinancing and Admission

Pursuant to the schemes of arrangement under which the Refinancing and Admission was implemented, the Group's debt was restructured on 15 December 2005. The particular elements of the restructuring relating to the Group's debt are illustrated below:

	<b>As at 15 December 2005</b>	
	<b>Principal £'m</b>	<b>Interest £'m</b>
<b>Previous debt facilities:</b>		
A1 Debt prepayment	388.2	12.8
B Debt prepayment	82.4	28.1
A2 Debt cash consideration	112.0	-
A2/A3 Debt interest payment	-	22.2
Interest rate swap termination payment	-	23.1
	<b>582.6</b>	<b>86.2</b>
<b>New debt facilities:</b>		
Term loan	500.0	-
Bridge loan	77.0	-
	<b>577.0</b>	<b>-</b>

Outstanding principal and interest in relation to A1 and B Debt was repaid in full. In addition, interest rate swap contracts with a notional value of £400 million, principally related to A1 Debt, were terminated.

A2/A3 Debt holders contributed their A2/A3 Debt in exchange for cash and ordinary shares of 10 pence each in Drax Group plc. In total, A2 Debt holders received cash consideration of £112.0 million and A2/A3 Debt holders received 124,164,221 ordinary shares of 10 pence each in Drax Group plc. Outstanding interest on A2/A3 Debt was repaid in full.

The Group settled the remaining nominal value of A2/A3 Debt, after deduction of the A2 cash consideration, of £433.1 million in exchange for issuing the 124,164,221 ordinary shares in Drax Group plc. The directors determined that the nominal value of A2/A3 Debt approximated its fair value by reference to the terms of the debt, principally the ability to prepay at nominal value. The nominal value of shares issued of £12.4 million was therefore lower than the fair value of the asset acquired of £433.1 million. Under section 130 of the Companies Act 1985, the shares are treated as issued fully paid up and the difference of £420.7 million is recorded as share premium (note 7).

The total cash outflows related to the Refinancing and Admission were partially funded by a new Term loan of £500.0 million and a Bridge loan of £77.0 million as described below. The remaining cash outflows, including the payment of fees and expenses (note 2), were principally funded by cash generated from operations.

### Borrowings at 31 December 2005

Borrowings at 31 December 2005 consisted of bank loans held by the Company's subsidiary undertaking Drax Finance Limited as follows:

	<b>As at 31 December 2005</b>		
	<b>Borrowings before deferred finance costs £'m</b>	<b>Deferred finance costs (note 2) £'m</b>	<b>Net borrowings £'m</b>
Term loan	500.0	(15.5)	484.5
Bridge loan	77.0	-	77.0
<b>Total borrowings</b>	<b>577.0</b>	<b>(15.5)</b>	<b>561.5</b>
Less current portion of debt	(105.1)	3.7	(101.4)
<b>Non-current borrowings</b>	<b>471.9</b>	<b>(11.8)</b>	<b>460.1</b>

## Notes to the consolidated financial information

The Term loan is subject to a fixed amortisation profile beginning on 30 June 2006 and ending on 31 December 2010. The Bridge loan has a first priority over the TXU Claim and the proceeds thereof, which are its primary source of repayment. Following a third distribution under the TXU claim on 19 January 2006, £55.1 million of the Bridge loan was repaid on 23 January 2006. The third distribution has been recognised in the income statement for the year ended 31 December 2005 and has been included as a receivable balance at 31 December 2005. The debt which was repaid on 23 January 2006 has been shown as repayable within one year at 31 December 2005. The Bridge loan has no fixed amortisation profile. Any outstanding principal balance falls due for payment on 31 December 2008.

### 7 Shareholders' funds and statement of changes in shareholders' equity

	Share capital £'m	Share premium £'m	Merger reserve £'m	Capital reserve £'m	Hedge reserve £'m	Retained losses £'m	Total £'m
<b>At 1 January 2004</b>	-	-	445.1	293.5	-	(1,162.4)	(423.8)
Loss for the period	-	-	-	-	-	(6.5)	(6.5)
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(6.1)	(6.1)
Deferred tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	1.8	1.8
LTIP - proceeds on shares issued	-	0.5	-	-	-	-	0.5
<b>At 31 December 2004</b>	-	0.5	445.1	293.5	-	(1,173.2)	(434.1)
Profit for the period	-	-	-	-	-	282.4	282.4
Actuarial losses on defined benefit pension schemes	-	-	-	-	-	(8.2)	(8.2)
Deferred tax on actuarial losses on defined benefit pension schemes	-	-	-	-	-	2.5	2.5
Initial recognition of net mark to market liability on adoption of IAS 32 and 39	-	-	-	-	-	(5.6)	(5.6)
Deferred tax recognised on adoption of IAS 32 and 39	-	-	-	-	-	1.7	1.7
Fair value losses on cash flow hedges	-	-	-	-	(109.7)	-	(109.7)
Deferred tax recognised on fair value losses on cash flow hedges	-	-	-	-	32.9	-	32.9
Share capital issued on Refinancing and Admission	40.7	-	-	-	-	-	40.7
Share premium arising on Refinancing and Admission	-	420.7	-	-	-	-	420.7
Reverse acquisition adjustments:							
- Share for share exchange	-	(0.5)	(27.8)	-	-	-	(28.3)
- Transfer of capital reserve	-	-	293.5	(293.5)	-	-	-
LTIP – credit to equity for share-based payment (note 2)	-	-	-	-	-	25.2	25.2
<b>At 31 December 2005</b>	<b>40.7</b>	<b>420.7</b>	<b>710.8</b>	<b>-</b>	<b>(76.8)</b>	<b>(875.2)</b>	<b>220.2</b>

## Notes to the consolidated financial information

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### 8 Cash flow from operating activities

	Years ended 31 December	
	2005 £'m	2004 £'m
<b>Continuing operations</b>		
<b>Profit / (loss) for the year</b>	<b>282.4</b>	<b>(6.5)</b>
Adjustments for:		
Interest payable and similar charges	114.4	101.2
Interest receivable	(23.5)	(4.6)
Tax credit	(18.8)	(35.1)
Depreciation	31.0	33.0
Reversal of impairment of tangible fixed assets	(19.0)	-
Loss on disposal of property, plant and equipment	0.2	2.0
Unrealised losses on derivative contracts	117.0	-
LTIP – credit to equity for share-based payments	25.2	-
<b>Operating cash flows before movement in working capital</b>	<b>508.9</b>	<b>90.0</b>
Changes in working capital:		
Increase in inventories	(22.6)	(9.8)
Increase in receivables	(123.4)	(9.6)
Increase in payables	99.8	1.0
Increase in pensions	-	1.4
(Decrease) / increase in provisions	(0.4)	0.4
<b>Cash generated from operations</b>	<b>462.3</b>	<b>73.4</b>