SELBY, England, November 21 /PRNewswire/ -- Drax Group Limited ("Drax") today announces its consolidated results for the nine months ended 30 September 2005. The consolidated results, which have been prepared under IFRS, encompass all the operations of Drax Group and its subsidiary undertakings ("Drax Group" or "Group") and are as follows:

| | Nine months ended 30 September Unaudited 2005 | 2004 |
|---|---|---|
| | GBP million | GBP million |
| Revenue | | |
| Revenue from generation | 512.0 | 364.8 |
| Gross-up of revenue for costs of power purchases | 61.3 | 61.1 |
| | 573.3 | 425.9 |
| Fuel costs(1) | | |
| Fuel costs in respect of generation | (312.0) | (211.8) |
| Costs of power purchases | (61.3) | (61.1) |
| | (373.3) | (272.9) |
| | 200.0 | 153.0 |
| Other operating expenses excluding exceptional items(2) | (159.8) | (132.8) |
| | 40.2 | 20.2 |

| | | |
|---|---|---|
| Other operating income - exceptional credit related to termination of TXU Contract and financial restructuring | 274.8 | - |
| Unrealised losses on derivative contracts | (211.7) | - |
| Operating profit | 103.3 | 20.2 |
| Interest receivable | 3.9 | 3.2 |
| Interest payable and similar charges | (81.1) | (74.3) |
| Profit/(loss) before tax | 26.1 | (50.9) |
| Tax credit | 69.8 | 3.3 |
| Profit/(loss) for the period attributable to equity shareholders from continuing operations | 95.9 | (47.6) |

(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, $CO_2$ emissions allowance costs have also become a substantial part of fuel costs. Fuel costs also include the cost of power purchased to meet power sale commitments.

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

Drax Group's revenues from generation during the nine months ended 30 September 2005 were GBP512.0 million, compared to GBP364.8 million during the corresponding period in 2004, an increase of GBP147.2 million

(40.4 per cent.). This increase was mainly due to increases in average electricity capture prices over the period. In the nine months to 30 September 2005 15.8 TWh of power was sold, compared to 16.4 TWh in the corresponding period in 2004.

Drax purchases power in the market to cover any shortfall in generation and when the cost of power in the market is below Drax's marginal costs of production in respect of power previously contracted by Drax. The cost of purchased power has remained relatively constant between each of the two nine month periods.

In Drax's historical financial statements (prepared under UK GAAP), revenue has been recorded net of the costs of power purchased to meet power sales commitments. Under IFRS, the costs of power purchased is treated as fuel costs, and revenue has been grossed-up accordingly.

Drax's fuel costs in respect of generation during the nine months ended 30 September 2005 were GBP312.0 million, compared to GBP211.8 million during the comparable period in 2004, an increase of GBP100.2 million (or 47.3 per cent.). This increase was primarily due to the cost of $CO_2$ emissions allowances 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 GBP153.0 million in the nine months ended 30 September 2004 to GBP200.0 million in the nine months ended 30 September 2005, an increase of GBP47.0 million (or 30.7 per cent.).

Drax's other operating expenses excluding exceptional items increased from GBP132.8 million in the nine months ended 30 September 2004 to GBP159.8 million in the corresponding period in 2005, an increase of GBP27.0 million (or 20.3 per cent.). This increase was largely due to to the charge for LTIP share-based payment transactions in the period of GBP17.7 million, as well as costs incurred with respect to the Refinancing and Admission of GBP9.7 million.

Drax had no exceptional operating expenses in the nine months ended 30 September 2004, but had a credit to exceptional operating income in the corresponding period in 2005 totalling GBP274.8 million, comprised of GBP19.0 million due to the reversal of provisions relating to impairment of tangible fixed assets and GBP255.8 million as a result of two distributions received by Drax from the Administrators and Supervisors of TXU EET and TXU EG, pursuant to the company voluntary arrangements for those companies.

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, an unrealised loss on derivative contracts of GBP211.7 million has been recognised for the nine months to 30 September 2005. This unrealised loss reflects the mark-to-market of Drax's power contracts for power yet to be delivered and some coal contracts, which meet the definition of derivatives under IAS 39. Relevant hedge accounting documentation was not in place for the six months to 30 June 2005 and therefore the mark-to-market movement during the period has been reflected in the profit and loss account. From 1 July 2005 the Drax 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. The out-of-the-money position mainly reflects prices in Drax's forward sales contracts for power against rising market prices for power.

Interest payable and similar charges in the nine months ended 30 September 2005 were GBP81.1 million, compared to GBP74.3 million in the same period in 2004, an increase of GBP6.8 million (or 9.2 per cent.). This increase was generally due to unrealised losses from derivative contracts accounted for under IAS 39 from 1 January 2005.

Drax's tax credit during the nine months ended 30 September 2005 was GBP69.8 million, compared to a tax credit of GBP3.3 million during the comparable period in 2004. The tax credit in 2005 reflects the benefits of the Inpower project finance structure and the utilisation of tax losses brought forward from earlier years which more than offsets the profit before tax for the period. The tax credit for 2004 reflects the loss for the nine months and the effect of the Inpower structure, offset by tax losses not recognised in the period.

Reflecting the above factors, Drax had a profit for the period from continuing operations of GBP95.9 million in the nine months ended 30 September 2005, compared to a loss of GBP47.6 million in the nine months ended 30 September 2004.

Current Trading and Prospects

For the nine month period ended 30 September 2005, the Group's turnover was GBP573.3 million resulting in an operating profit of GBP103.3 million. On the basis of preparation and principal assumptions set out in Part XIII of the Drax Group plc prospectus published on 28 October 2005, the Directors reconfirm their forecast that for the twelve months ending 31 December 2005, the EBITDA of the Group will be GBP311 million, the Operating Profit will be GBP279 million and net profit before interest expense and tax will be GBP284 million. These forecasts include an exceptional credit relating to termination of the TXU Contract and financial restructuring of GBP275 million, unrealised losses on derivative contracts of GBP119 million, LTIP expenses of GBP38 million and estimated fees of the Refinancing and Admission of GBP27 million. The forecasts include assumptions on prices for electricity and coal based on average prices prevailing over the five days up to and including 11 November 2005, and that the forced outage rate remains at around 6.5 per cent. The forecast has been prepared in accordance with IFRS.

The first and final quarters of each year normally account for a substantial proportion of Drax's earnings for the year. Accordingly, the results for 2005 will be significantly affected by the final quarter's operating performance, including the impact on margins of unhedged electricity and coal prices for the remainder of the year (i.e. including winter 2005/06 prices for electricity) as well as the impact of any significant forced outages. Drax has previously indicated that Dark Green Spreads were lower than expected during summer 2005 but that winter 2005/06 spreads remained strong. As at 11 November 2005 this continued to be the case.

As at 11 November 2005, the Group had contracted for some 98 per cent. of forecast 2005 electricity net generation at an average price of c.GBP32.9/MWh and had fixed all of its forecast 2005 $CO_2$ emissions allowances requirements through a combination of allowances allocated to Drax under the UK National Allocation Plan ("NAP"), market purchases and structured deals. Also, as at 11 November 2005, some 97 per cent. of the Group's forecast 2005 coal requirements had been covered at fixed prices.

As at 11 November 2005, the Group had contracted for some 48 per cent. of estimated 2006 net generation at an average price of c.GBP42.18/MWh, including the contracts with EDF Trading Limited and Sempra Energy Europe Limited announced recently. On 11 November 2005, the Group had also covered 66 per cent. of estimated 2006 $CO_2$ emission allowances requirements through a combination of allowances allocated to Drax under the UK NAP, market purchases and structured deals. At the same date, approximately half of the contracted 2006 net generation related to Q1 2006, with progressively lower volumes contracted for subsequent quarters. As at 11 November 2005, the Q1 2006 baseload contract was trading at GBP60.50/MWh, the summer 2006 baseload contract was trading at GBP38.10/MWh, the summer 2006 peak load contract was trading at GBP44.50/MWh, and the winter 2006 baseload contract was trading at GBP54.95/MWh.

## Operational Performance

The forecast forced outage rate for 2005 of 6.4 per cent. is in line with plan and 46 per cent. below 2004. The 2005 forecast rate includes 1.3 per cent. of elective zero cost outages during the summer period to prepare for the critical winter period. The forecast planned outage rate for 2005 of 7.2 per cent. is 0.5 per cent. above plan as a result of Units 2 and 3 making early returns to service but being more than offset by the late return of Unit 6.

## Business Enhancement Opportunities

The petroleum coke trial commenced in June 2006 and there has been no elevation in critical emissions. The unit burning petcoke was fed a coal/petcoke blend up to a maximum of 85/15 per cent. by heat during the third quarter of 2005.

The biomass direct injection project has been successfully implemented on Unit 3 with work underway to develop further direct injection units for 2006. Current through the mill biomass burn rates represent a threefold increase against typical fourth quarter 2004 levels.

Conditioned ash rail loading facilities are now in operation, with dry ash facilities under development for execution in 2006. In the procurement area, contractor rationalisation and retendering of existing contracts are progressing well. Property advisers have been engaged to evaluate incremental development opportunities for the Site.

Improvements to forced and planned outage rates are being delivered. Plans are being finalised to deliver a 4.5 per cent. forced outage rate by 2007/2008.

## Developments in Trading

Drax has an experienced trading team with deep knowledge of the UK power market, and initiatives are underway to further enhance quantitative tools and capability.

Trading has commenced in financial coal recently and, as previously announced, sulphur. Initial assessment of gas swaps is underway as a potential proxy hedge for power particularly in the winter extended peak period.

## Summary of Third Party Approaches

As separately announced, and outlined in the Prospectus, since 13 September 2005, Drax has received indicative proposals to acquire Drax from three consortia, being the BCHP Consortium, the ATT Consortium and the IPM Consortium, each of which the Board believed significantly undervalued the Company.

In order to allow Drax to continue the preparations for the Refinancing and Admission, the Board asked each consortium, and any other interested parties, to submit final terms for a possible offer by early November 2005. The three consortia have been given access to equivalent information relating to Drax, as well as site visits and management meetings.

International Power announced the withdrawal of the IPM

Consortium's proposal on 7 November 2005. The Board and its advisers continued to have discussions with the BCHP consortium and the ATT Consortium and also consulted with Greenhill & Co. International LLP and Milbank, Tweed, Hadley & McCloy LLP, advisers to the Shareholder Committee. Following those discussions, the Board decided to investigate further the proposal from the BCHP Consortium and decided not to proceed with the ATT Consortium. To date, the Board has received no other proposals to acquire the Company.

Drax announced on 15 November 2005 that the proposal it has received from the BCHP Consortium to acquire Drax is at a cash price of 377% of par value for the Linked Securities, equating to an enterprise value of approximately GBP2.23 billion. The cash price of 377% is stated by the BCHP Consortium to be on the basis of a number of valuation assumptions, and on the basis that Drax shareholders commit to take up at least 20% of the ordinary shares in the unlisted BCHP Consortium bid vehicle. In addition, the proposal remains subject to a number of uncertainties with respect to the structure of the transaction and its conditionality, as well as its deliverability and timeliness.

The Board continues to believe that the BCHP Consortium's proposal undervalues Drax. In addition, following consultations with shareholders and with the advisers to the Shareholder Committee (whose members account for more than 80% of the Linked Securities), the Board believes that a majority of shareholders would not accept an offer at this level.

The Board is continuing to engage with the BCHP Consortium and to provide further due diligence material, in order to give the BCHP

Consortium the opportunity to increase the value of its proposal and to remove the uncertainties attached to it. However, there can be no certainty of the BCHP Consortium making a satisfactory offer for Drax.

The Board is continuing the process which has been mapped out to deliver the Refinancing and Admission. It is expected that Admission will take place on 15 December 2005.

Forward-looking Statements

This press release contains 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 is not warranted or guaranteed. These statements typically contain words such as "intends", "expects", "anticipates", "estimates" and words of similar import.

By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will 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 Drax Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements.

Notes to Editors

1. A presentation to investors of the results for the nine months ended 30 September 2005 will be held today at 3.00pm (UK time). Details of the conference call are given below. An accompanying presentation is available on the Investors>>Recent Financial Press Releases page of the Drax Power website:

www.draxpower.com

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| | |
|---|---|
| Event Title: | Drax Group Limited: Q3 Results |
| UK Call-In Number: | 020-7162-0125 |
| International Call-In Number: | +44-20-7162-0125 |
| US Call-In Number: | +1-334-323-6203 |

Drax Group Limited Special Purpose Financial Information

Consolidated profit and loss accounts for the 9 months ended 30 September 2005

| | 9 months ended 30 September | |
|---|---|---|
| | Unaudited | Unaudited |

| | Notes | 2005 GBP'm | 2004 GBP'm |
|---|---|---|---|
| Continuing operations | | | |
| Revenue | | 573.3 | 425.9 |
| Fuel costs | | (373.3) | (272.9) |
| Other operating income excluding exceptional items | | (159.8) | (132.8) |
| Other operating income - exceptional credits related to termination of TXU Contract and financial restructuring | | 274.8 | - |
| Total other operating income/(expenses) | | 115.0 | (132.8) |
| Unrealised losses on derivative contracts | | (211.7) | - |
| Operating profit | | 103.3 | 20.2 |
| Interest payable & similar charges | | (81.1) | (74.3) |
| Interest receivable | | 3.9 | 3.2 |
| Profit/(loss) before tax | | 26.1 | (50.9) |
| Tax credit | | 69.8 | 3.3 |
| Profit/(loss) for the period attributable to equity shareholders from continuing operations | | 95.9 | (47.6) |

| | Note | | |
|---|---|---|---|
| Earnings per share from continuing operations expressed in pence per share | | | |
| Basic and diluted | 2 | 101.8 | (52.4) |

The financial information above may not be representative of the future income statements if the Refinancing and Admission does not take place, as the historical financing and capital structure does not reflect the impact of the Refinancing.

Consolidated statements of recognised income and expense for the 9 months ended 30 September 2005

| | 9 months ended 30 September | |
|---|---|---|
| | Unaudited | Unaudited |
| | 2005 | 2004 |
| | GBP'm | GBP'm |
| Profit/(loss) for the period | 95.9 | (47.6) |
| Actuarial losses on defined benefit pension schemes | (0.2) | (2.6) |
| Deferred tax on actuarial losses on defined benefit | | |

| | | |
|---|---|---|
| pension schemes | 0.1 | 0.8 |
| 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 | 1.7 | - |
| Fair value gains on cash flow hedges | 62.6 | - |
| Deferred tax recognised on fair value gains on cash flow hedges | (18.8) | - |
| Net gains/(losses) not recognised in profit and loss account | 39.8 | (1.8) |
| Total recognised income/(expense) for the period attributable to equity shareholders | 135.7 | (49.4) |

Consolidated balance sheets

| | | As at 30 September | | As at 31 December |
|---|---|---|---|---|
| | | Unaudited | Unaudited | |
| | Notes | 2005 | 2004 | 2004 |

| | | | |
|---|---|---|---|
| | GBP'm | GBP'm | GBP'm |
| Assets | | | |
| Non-current assets | | | |
| Property, plant & equipment | 1,051.8 | 1,043.5 | 1,037.7 |
| | | | |
| Current assets | | | |
| Inventories | 73.4 | 48.1 | 45.2 |
| Trade and other receivables | 60.8 | 50.5 | 69.5 |
| Cash and cash equivalents | 110.8 | 80.7 | 75.7 |
| | 245.0 | 179.3 | 190.4 |
| Liabilities | | | |
| Current liabilities | | | |
| Financial liabilities: | | | |
| - Borrowings | - | - | 204.7 |
| - Derivative financial instruments | 155.0 | - | - |
| Trade and other payables | 140.0 | 69.5 | 66.9 |
| Current tax liabilities | - | 4.9 | 2.5 |
| | 295.0 | 74.4 | 274.1 |
| | | | |
| Net current (liabilities)/assets | (50.0) | 104.9 | (83.7) |
| Non-current liabilities | | | |
| Financial liabilities: | | | |
| - Borrowings | 1,015.7 | 1,283.3 | 1,078.6 |
| - Derivative financial instruments | 8.6 | - | - |
| Deferred tax liabilities | 193.9 | 277.2 | 246.7 |
| Retirement benefit obligations | 36.9 | 32.7 | 36.5 |
| Other non-current | | | |

| | | | | |
|---|---|---|---|---|
| liabilities | | 25.7 | 27.6 | 25.8 |
| Provisions | | 1.7 | 0.3 | 0.5 |
| | | 1,282.5 | 1,621.1 | 1,388.1 |
| Net liabilities | | (280.7) | (472.7) | (434.1) |
| Shareholders' equity | | | | |
| Issued equity | 4 | 445.1 | 445.1 | 445.1 |
| Share premium | 4 | 0.5 | 0.5 | 0.5 |
| Capital reserve | 4 | 293.5 | 293.5 | 293.5 |
| Hedge reserve | 4 | 43.8 | - | - |
| Retained losses | 3 | (1,063.6) | (1,211.8) | (1,173.2) |
| Total shareholders' equity | | (280.7) | (472.7) | (434.1) |

Consolidated cash flow statements for the 9 months ended 30 September 2005

| | Notes | 9 months ended 30 September Unaudited 2005 GBP'm | Unaudited 2004 GBP'm |
|---|---|---|---|
| Cash generated from operations | 5 | 382.4 | 34.8 |
| Income taxes paid | | (2.8) | (0.3) |

| | | | |
|---|---|---|---|
| (Increase)/decrease in restricted cash | | 5.6 | (17.0) |
| Interest paid | | (59.4) | (36.6) |
| Interest received | | 3.9 | 3.2 |
| Net cash generated from/(used in) operating activities | | 329.7 | (15.9) |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (21.4) | (9.1) |
| Net cash used in investing activities | | (21.4) | (9.1) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (267.6) | - |
| Net cash used in financing activities | | (267.6) | - |
| Net increase/(decrease) in cash at bank and in hand | | 40.7 | (25.0) |
| Cash at bank and in hand at beginning of the period | | 37.5 | 33.6 |
| Cash at bank and in hand at end of the period | 5 | 78.2 | 8.6 |

Notes to the financial information

1. Basis of preparation

Drax Group Limited is a company incorporated in the Cayman Islands but domiciled in the United Kingdom. Drax Group Limited and its subsidiaries operate in the electricity generation industry within the UK. The address of

Drax Group Limited's registered office is Walker House, PO Box 908GT, Mary Street, George Town, Grand Cayman.

This financial information has been prepared on the basis of the Group's accounting policies under IFRS as set out on pages 104 to 111 of the Group's Special Purpose Consolidated Financial Information for the period ended 30 June 2005 included in Part XI of the Drax Group plc prospectus dated 28 October 2005.

The financial information has been prepared on the basis of all applicable International Financial Reporting Standards (''IFRS''), including all International Accounting Standards (''IAS''), 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. As permitted the Group has also early adopted the amendment to IAS 19 ''Employee Benefits'' published in December 2004. This IAS 19 amendment has not yet been endorsed by the EU.

For IAS 39 "Financial Instruments: Recognition and Measurement" purposes, 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, any 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, any mark-to-market movements on these commodity contracts were reflected directly in the profit and loss account, as appropriate hedge documentation had not been put in place.

Following Admission to the Official List, Drax Group plc will be required to prepare statutory financial statements which comply with accounting standards adopted for use in the EU in respect of the financial year commencing on 1 January 2005 and subsequently.

When the 31 December 2005 financial statements are prepared, they will be the first financial statements prepared by Drax Group plc in accordance with accounting standards as adopted for use in the EU and as such will take account of the requirements and options in IFRS 1 ''First-time Adoption of International Financial Reporting Standards'' as they relate to the comparative financial information included therein.

The financial statements have been prepared under the historical cost convention basis as modified by the revaluation of financial assets and liabilities following the application of IAS 39 ''Financial Instruments - Recognition and Measurement'' from 1 January 2005.

Due to the continuing work of the IASB further standards, amendments and interpretations could be applicable for the Group's financial statements for the year ending 31 December 2005 as practice is continuing to evolve. Consequently, the Group's accounting policies may change prior to the publication of those financial statements.

2. 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.

Under IAS 33 ''Earnings per share'' any contingently issuable shares are treated as outstanding and are included in the calculation of basic earnings per share only from the date when all necessary conditions are satisfied. Shares that are issuable solely after the passage of time are not considered to be contingently issuable shares. 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.

| | 9 months ended 30 September | |
|---|---|---|
| | Unaudited | Unaudited |
| | 2005 | 2004 |
| Earnings attributable to equity holders of the Group (GBP'm) | 95.9 | (47.6) |
| Weighted average number of shares (millions) | 94.3 | 90.9 |
| Basic and diluted earnings per share (pence per share) | 101.8 | (52.4) |

3. Retained losses

| | 9 months ended 30 September Unaudited 2005 GBP'm | 9 months ended 30 September Unaudited 2004 GBP'm |
|---|---|---|
| At beginning of period | (1,173.2) | (1,162.4) |
| Profit/(loss) for the period | 95.9 | (47.6) |
| Actuarial losses on defined benefit pension schemes | (0.2) | (2.6) |
| Deferred tax on actuarial losses on defined benefit pension schemes | 0.1 | 0.8 |
| 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 | 1.7 | - |
| LTIP - value of services provided | 17.7 | - |
| At end of period | (1,063.6) | (1,211.8) |

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

| | Share capital GBP'm | Share premium GBP'm | Capital reserve GBP'm | Hedge reserve GBP'm | Retained losses GBP'm | Total GBP'm |
|---|---|---|---|---|---|---|

| | | | | | | |
|---|---|---|---|---|---|---|
| At 1 January 2004 | 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 |
| At 31 December 2004 | 445.1 | 0.5 | 293.5 | - | (1,173.2) | (434.1) |
| Profit for the period | - | - | - | - | 95.9 | 95.9 |
| Actuarial losses on defined benefit pension schemes | - | - | - | - | (0.2) | (0.2) |
| Deferred tax on actuarial losses on defined benefit pension schemes | - | - | - | - | 0.1 | 0.1 |
| Initial recognition of net mark to market liability on adoption of IAS 32 and IAS 39 | - | - | - | - | (5.6) | (5.6) |
| Deferred tax recognised on adoption of IAS 32 and IAS 39 | - | - | - | - | 1.7 | 1.7 |
| LTIP - value of services provided | - | - | - | - | 17.7 | 17.7 |
| Fair value gains on cash flow hedges | - | - | - | 62.6 | - | 62.6 |
| Deferred tax recognised on fair value gains on cash flow hedges | - | - | - | (18.8) | - | (18.8) |

| | | | | | | |
|---|---|---|---|---|---|---|
| At 30 September 2005 | 445.1 | 0.5 | 293.5 | 43.8 | (1,063.6) | (280.7) |

5. Cash flow from operating activities

Cash from operating activities

| | 9 months ended 30 September | |
|---|---|---|
| | Unaudited | Unaudited |
| | 2005 | 2004 |
| Continuing operations | GBP'm | GBP'm |
| Profit/(loss) for the period | 95.9 | (47.6) |
| Adjustments for: | | |
| Interest paid and similar charges | 81.1 | 74.3 |
| Interest received | (3.9) | (3.2) |
| Tax | (69.8) | (3.3) |
| Depreciation | 24.3 | 24.9 |
| Impairment reversal of tangible fixed assets | (19.0) | - |
| Loss on disposal of property, plant and equipment | 2.0 | - |
| Decrease in fair value of financial instruments | 211.7 | - |
| Value of employee service | 17.7 | - |
| Operating cash flows before movement in working capital | 340.0 | 45.1 |
| Changes in working capital: | | |
| Increase in inventories | (28.2) | (12.7) |
| Decrease in trade and other receivables | 9.0 | 9.4 |
| Increase/(decrease) in payables | 60.2 | (8.3) |

| | | |
|---|---|---|
| Increase in pensions | 0.2 | 1.1 |
| Increase in provisions | 1.2 | 0.2 |
| Cash generated from operations | 382.4 | 34.8 |

Cash at bank and in hand include the following for the purposes of the cash flow statement:

| | As at 30 September | | As at 31 December |
|---|---|---|---|
| | Unaudited | Unaudited | |
| | 2005 | 2004 | 2004 |
| Cash and cash equivalents | 110.8 | 80.7 | 75.7 |
| Less: Debt service reserve account | (32.6) | (72.1) | (38.2) |
| Cash at bank and in hand at end of the period | 78.2 | 8.6 | 37.5 |

6. Reconciliation of net assets and profit under UK GAAP to IFRS

The tables below show the impact of IFRS on the consolidated profit and loss account as well on net assets for the nine month periods ended 30 September 2004 and 2005.

Consolidated profit and loss account for the nine month period ended 30 September 2004

| | UK GAAP GBP'm | Reclassification GBP'm | IAS 12 Income Taxes GBP'm |
|---|---|---|---|
| Revenue | 364.8 | 61.1 | - |
| Fuel costs | (211.8) | (61.1) | - |
| Other operating expenses | (131) | - | - |
| Operating profit | 22 | - | - |
| Interest receivable | 3.2 | - | - |
| Interest payable and similar charges | (74.3) | - | - |
| Loss before tax | (49.1) | - | - |
| Taxation | (3.1) | - | 5.9 |
| Loss for the period | (52.2) | - | 5.9 |

| | IAS 19 Employee Benefits GBP'm | IAS 16 Property, Plant and Equipment GBP'm | Total IFRS Adjustments GBP'm | IFRS GBP'm |
|---|---|---|---|---|
| Revenue | - | - | 61.1 | 425.9 |
| Fuel costs | - | - | (61.1) | (272.9) |
| Other operating expenses | (1.1) | (0.7) | (1.8) | (132.8) |
| Operating profit | (1.1) | (0.7) | (1.8) | 20.2 |
| Interest receivable | - | - | - | 3.2 |
| Interest payable and similar charges | - | - | - | (74.3) |
| Loss before tax | (1.1) | (0.7) | (1.8) | (50.9) |
| Taxation | 0.3 | 0.2 | 6.4 | 3.3 |
| Loss for the period | (0.8) | (0.5) | 4.6 | (47.6) |

Consolidated profit and loss account for the nine month period ended 30 September 2005

| | UK GAAP GBP'm | Reclass-ification GBP'm | IAS 12 Income Taxes | IAS 19 Employee Benefits | IAS 16 Property, Plant and Equipment GBP'm |
|---|---|---|---|---|---|
| Revenue | 512 | 61.3 | - | - | - |
| Fuel costs | (312) | (61.3) | - | - | - |
| Other operating expenses excluding exceptional items | (141.8) | - | - | 0.1 | (0.4) |
| Other operating income/ (expenses) - exceptional | 282 | - | - | - | - |
| Unrealised gains and losses on derivative | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| contracts | - | - | - | - | - |
| Operating profit | 340.2 | - | - | 0.1 | (0.4) |
| Interest receivable | 3.9 | - | - | - | - |
| Interest payable and similar charges | (72.2) | - | - | - | - |
| Profit before tax | 271.9 | - | - | 0.1 | (0.4) |
| Taxation | (1.8) | - | (2) | - | 0.1 |
| Profit for the period | 270.1 | - | (2) | 0.1 | (0.3) |

| | IFRS 2 Share Based Payment GBP'm | IAS 39 Financial Instruments GBP'm | IAS 36 Impairment GBP'm | Total IFRS Adjustments GBP'm | IFRS GBP'm |
|---|---|---|---|---|---|
| Revenue | - | - | - | 61.3 | 573.3 |
| Fuel costs | - | - | - | (61.3) | (373.3) |
| Other operating expenses excluding | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| exceptional items | (17.7) | - | - | (18) | (159.8) |
| Other operating income/ (expenses) - exceptional | - | - | (7.2) | (7.2) | 274.8 |
| Unrealised gains and losses on derivative contracts | - | (211.7) | - | (211.7) | (211.7) |
| Operating profit | (17.7) | (211.7) | (7.2) | (236.9) | 103.3 |
| Interest receivable | - | - | - | - | 3.9 |
| Interest payable and similar charges | - | (8.9) | - | (8.9) | (81.1) |
| Profit before tax | (17.7) | (220.6) | (7.2) | (245.8) | 26.1 |
| Taxation | 5.3 | 66 | 2.2 | 71.6 | 69.8 |
| Profit for the period | (12.4) | (154.6) | (5) | (174.2) | 95.9 |

Consolidated balance sheet as at 30 September 2004

| | UK GAAP GBP'm | IAS 12 Income Taxes GBP'm | IAS 19 Employee Benefits GBP'm |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 1,045.10 | - | - |
| Current assets | 179.3 | - | - |
| Current liabilities | (74.4) | - | - |
| Non-current liabilities | (1336.1) | (262.6) | (22.9) |
| Net liabilities | (186.1) | (262.6) | (22.9) |
| Share capital | 445.1 | - | - |
| Share premium account | 0.5 | - | - |
| Capital reserve | 293.5 | - | - |
| Retained earnings | (925.2) | (262.6) | (22.9) |
| Total equity | (186.1) | (262.6) | (22.9) |

| | IAS 16 Property, Plant and Equipment GBP'm | IAS 38 Goodwill/ IAS 36 Impairment GBP'm | Total IFRS Adjustments GBP'm | IFRS GBP'm |
|---|---|---|---|---|
| Non-current assets | | | | |

| | | | | |
|---|---|---|---|---|
| Property, plant and equipment | (10.7) | 9.1 | (1.6) | 1,043.50 |
| Current assets | - | - | - | 179.3 |
| Current liabilities | - | - | - | (74.4) |
| Non-current liabilities | 3.2 | (2.7) | (285) | (1621.1) |
| Net liabilities | (7.5) | 6.4 | (286.6) | (472.7) |
| Share capital | - | - | - | 445.1 |
| Share premium account | - | - | - | 0.5 |
| Capital reserve | - | - | - | 293.5 |
| Retained earnings | (7.5) | 6.4 | (286.6) | (1211.8) |
| Total equity | (7.5) | 6.4 | (286.6) | (472.7) |

Consolidated balance sheet as at 30 September 2005

| | UK GAAP GBP'm | IAS 12 Income Taxes GBP'm | IAS 19 Employee Benefits GBP'm | IAS 16 Property, Plant and Equipment GBP'm |
|---|---|---|---|---|
| Non-current assets | | | | |
| Property, plant and equipment | 1,062.70 | - | - | (12.8) |
| Current assets | 245 | - | - | - |
| Current liabilities | (141.8) | - | 1.8 | - |
| Non-current liabilities | (1042.2) | (262.9) | (26.4) | 3.8 |
| Net assets/ liabilities | 123.7 | (262.9) | (24.6) | (9) |

| | | | | |
|---|---|---|---|---|
| Share capital | 445.1 | - | - | - |
| Share premium account | 0.5 | - | - | - |
| Capital reserve | 293.5 | - | - | - |
| Hedge reserve | - | - | - | - |
| Retained earnings | (615.4) | (262.9) | (24.6) | (9) |
| Total equity | 123.7 | (262.9) | (24.6) | (9) |

| | IAS 38 Goodwill/ IAS 36 Impairment GBP'm | IFRS 2 Share Based Payment GBP'm | IAS 39 Financial Instruments GBP'm | Total IFRS Adjustments GBP'm | IFRS GBP'm |
|---|---|---|---|---|---|
| Non-current assets | | | | | |
| Property, plant and equipment | 1.9 | - | - | (10.9) | 1,051.80 |
| Current assets | - | - | - | - | 245 |
| Current liabilities | - | - | (155) | (153.2) | (295) |
| Non-current liabilities | (0.6) | 5.3 | 40.5 | (240.3) | (1282.5) |
| Net assets/ liabilities | 1.3 | 5.3 | (114.5) | (404.4) | (280.7) |
| Share capital | - | - | - | - | 445.1 |
| Share premium account | - | - | - | - | 0.5 |
| Capital reserve | - | - | - | - | 293.5 |
| Hedge reserve | - | - | 43.8 | 43.8 | 43.8 |
| Retained earnings | 1.3 | 5.3 | (158.3) | (448.2) | (1063.6) |
| Total equity | 1.3 | 5.3 | (114.5) | (404.4) | (280.7) |

INDEPENDENT REVIEW REPORT TO DRAX GROUP LIMITED (the "Company")

Introduction

We have been instructed by the company to review the financial information for the nine months ended 30 September 2005 which comprises the consolidated profit and loss account, the consolidated statement of recognised income and expense, the consolidated balance sheet and the consolidated cash flow statement, and related notes 1 to 6. We have read the other information contained in the interim report and considered whether it contains any apparent misstatements or material inconsistencies with the financial information.

This report is made on terms that have been agreed solely to the company in accordance with Bulletin 1999/4 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 interim report, including the financial information contained therein, is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim report which requires that the accounting policies and presentation applied to the interim figures are consistent with those applied in preparing the Special Purpose

Consolidated Financial Information for the three years ended 31 December 2004 and six months ended 30 June 2005 except where any changes, and the reasons for them, are disclosed.

## International Financial Reporting Standards

As disclosed in note 1, the next annual financial statements of the Group will be prepared in accordance with International Financial Reporting Standards as adopted for use in the EU. Accordingly, the interim report has been prepared in accordance with the recognition and measurement criteria of IFRS and the disclosure requirements of the Listing Rules. The accounting policies are consistent with those that the directors intend to use in the annual financial statements. There is, however, a possibility that the directors may determine that some changes to these policies are necessary when preparing the full annual financial statements for the first time in accordance with IFRSs as adopted for use in the EU. This is because, as disclosed in note 1, the directors have anticipated that the revised IAS 19, which has yet to be formally adopted for use in the EU, will be so adopted in time to be applicable to the next annual financial statements.

## Review work performed

We conducted our review in accordance with the guidance contained in Bulletin 1999/4 issued by the Auditing Practices Board for use in the United Kingdom. A review consists principally of making enquiries of Group management and applying analytical procedures to the financial information and underlying financial data and, based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit performed in accordance with International Standards on Auditing (UK and Ireland) and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the financial information.

Review conclusion

On the basis of our review we are not aware of any material modifications that should be made to the financial information as presented for the nine months ended 30 September 2005.

Deloitte & Touche LLP

Chartered Accountants

Leeds

21 November 2005