Drax Group plc

Trading Update and Special Dividend Update – 30 June 2006

Prior to entering its close period on 7 July 2006, Drax Group plc ("Drax") announces the following trading update.

Trading Update

Since our preliminary results statement on 8 March 2006, we continue to trade in line with expectations and to follow our trading strategy of making steady forward power sales with matching carbon and coal purchases. Our aim is to deliver market level or better dark green spreads across all traded market periods and, as part of this strategy, we retain power to be sold into the prompt (within season) power markets
.
As at 23 June 2006 the traded positions for 2006 and 2007 were as follows:

	2006	2007
Output – percentage of expected annual production Average price achieved	87% at £47.9/MWh	63% at £49.9/MWh
Carbon – percentage of expected annual requirement (including UK NAP allocation, market purchases and structured contracts)	87%	73%
Coal – percentage of expected annual requirement at fixed price/hedged	89%	63%

The 2007 contracted position includes approximately 1.3 TWh of production under the five and a quarter year baseload contract with Centrica which commences on 1 October 2007. Under this contract Drax will supply power on terms which include Centrica paying Drax for coal, based on international coal prices, and delivering matching CO_2 allowances. The power price for these contract volumes has been estimated in the above table using the forward prices for coal and carbon as at 23 June 2006 (for delivery in Quarter 4 2007) and the contractual fixed dark green spread for the period.

Drax will provide the next update on its contracted position in the interim results statement that will be issued on 12 September 2006.

Special Dividend

As indicated in our AGM statement on 12 May 2006, we are now providing further details of our intentions regarding the payment of a special dividend. Final arrangements will be announced in our interim results statement. In future, guidance on any special distributions will be given with our preliminary and interim statements.

The Board expects to declare a special dividend in the range 75 pence to 80 pence per share, being approximately £305 million to approximately £326 million. This expectation assumes the business will not be subject to unforeseen circumstances that might have a material adverse effect. The derivation of this range is discussed in more detail below.

As is normal in such situations the declaration of the special dividend will be accompanied by a resolution to effect a share consolidation to be considered by shareholders at an Extraordinary General Meeting ("EGM"). This EGM, which will be called shortly after our interim results statement is made, will take place in early October 2006 with the shares becoming ex-dividend shortly thereafter.

The intention is to pay the special dividend at the same time as the intended interim ordinary dividend of 4 pence per share (being approximately £16.3 million). This is expected to be in late October 2006.

In arriving at the range for the first special dividend the Board has taken account of:

- the expected cash generation in the six month period to 30 June 2006 which benefits from the cash flows arising from four months of the Winter 05/06 season;
- the additional debt facilities of £100 million announced at the Annual General Meeting which will be drawn down prior to payment of the special dividend;
- the intention to make a payment in July 2006 into the employee pension scheme of £22.5 million to reduce the actuarial deficit of £44.7 million reported in the 2005 Report and Accounts;
- the cash balance of £99 million as at 1 January 2006; and
- the retention of £50 million of cash to meet short term working capital requirements including payment in July 2006 of a VAT payment and the first quarterly corporation tax payment, the group having exhausted its brought forward tax losses.

It should be noted that, in addition to the impact of commodity price movements on uncontracted power sales and coal and carbon purchases, the net cash generation in the six month period to 31 December 2006 will be influenced by:

- expected quarterly tax payments on account;
- the settlement of costs associated with this summer's routine planned outage; and
- the inclusion of only two months' cash flow arising from the Winter 06/07 season reflecting standard market payment terms.

Dorothy Thompson, Chief Executive of Drax said: "This trading update demonstrates the continued progress of the business and evidences our commitment to return excess cash to shareholders."

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