19 July 2017

DRAX GROUP PLC (Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Drax: delivering growth strategy

Six months ended 30 June	H1 2017	H1 2016
Key financial performance measures		
EBITDA (£ million)[1]	121	70
Underlying earnings (£ million)[2]	9	17
Underlying earnings per share (pence)[2]	2.2	4.2
Total dividends (pence per share)	4.9	2.1
Net cash from operating activities (£ million)	197	151
Net debt (£ million)[3]	372	85
Statutory accounting measures		
(Loss) / profit before tax (£ million)	(83)	184
Reported basic (loss) / earnings per share (pence)	(17)	37

Financial and Operational Highlights

- EBITDA of £121 million, an increase of £51 million on H1 2016
  - Strong operational performance
  - Improved earnings from renewable generation
  - Profitable and growing business to business (B2B) retail operation – Opus Energy and Haven Power
- Statutory loss before tax includes unrealised losses related to foreign currency hedging of £65 million
- Strong cash flows and balance sheet
  - Refinancing complete and capital allocation policy confirmed
- Interim dividend of £20 million, representing 40% of the expected full year – £50 million

Strategic Highlights and Outlook

- Focus on higher quality earnings with targeted investment in long-term growth opportunities
- Good progress with strategic initiatives
  - Opus Energy and LaSalle Bioenergy acquisitions completed H1 2017, integration proceeding well
  - Focus on research and innovation, including development of options for future generation
- Maintaining operational excellence across the Group
- 2017 expectations unchanged, including c.2x net debt to EBITDA at year end

Dorothy Thompson, Chief Executive of Drax Group plc, said:

"We have made good progress with our strategy during the first half of 2017, acquiring Opus Energy and a third compressed wood pellet plant, in addition to refinancing and implementing a new dividend policy.

"Central to our strategy is the delivery of targeted growth through deploying our expertise across our markets and, in so doing, diversifying, growing and improving the quality of earnings whilst reducing exposure to commodity market volatility.

"Delivering reliable renewable electricity remains at the heart of our business. We continue to produce at record levels, helping to keep the UK's electricity system secure and supplying our customers through our retail business. With the right conditions, we can do even more. We are progressing our four new rapid response gas power projects and our research and innovation work has identified potentially attractive options to repurpose our remaining coal assets.

"We continue to play a vital role in the UK's energy infrastructure and our strategy is helping to change the way energy is generated, supplied and used for a better future."

NOTES FOR ANALYSTS AND EDITORS

H1 2017 Group Financial Review

- Underlying earnings per share decreased 48% to 2.2 pence
  - Higher depreciation reflecting accelerated depreciation of coal-specific assets and amortisation of intangible assets associated with the acquisition of Opus Energy, in addition to an increase in the net finance charge
- Reported basic earnings per share – a loss of 17 pence, which includes unrealised losses on derivative contracts of £65 million (principally related to the foreign currency hedging programme) in addition to one-off items – transaction costs relating to the acquisition of Opus Energy (£6 million) and refinancing (£24 million)
- Tax – small charge on underlying earnings, a function of a low underlying profit before tax
- Acquisitions – Opus Energy (£367 million) and LaSalle Bioenergy ($35 million)
- Capital investment of £79 million, including the acquisition of LaSalle Bioenergy
- Full year capital investment includes:
  - LaSalle Bioenergy acquisition and associated upgrades (c.£50 million)
  - Other – reflecting core investment, pellet plant optimisation, strategic spares, Haven Power information systems, research and innovation and Opus Energy office consolidation (£120-£130 million)
  - Continue to expect ongoing core capital investment of £50 million per year
- Net debt of £372 million (31 Dec 2016: £93 million), including cash on hand of £197 million

H1 2017 Business Review

<u>Generation</u>

- Electricity output (net sales) 10.7TWh (H1 2016: 10.9TWh)
- Renewable – biomass generation 7.3TWh (H1 2016: 7.5TWh)
- Coal – adapted to market conditions with increased system support role
  - Flexible operation in prompt and balancing markets
  - Increase in Ancillary Services revenue to £21 million (H1 2016: £20 million)
  - Fourth biomass unit trial – return to coal for winter 2017

<u>Retail</u>

- Haven Power – EBITDA breakeven achieved
- Opus Energy – significant addition to 2017 Group EBITDA
  - Integration progressing well
  - Delivering growth in SME[4] market

<u>Biomass Supply</u>

- Improving operational performance whilst providing supply chain flexibility
- LaSalle Bioenergy commissioning Q1 2018, increasing output through 2018

Notes:

(1) EBITDA is defined as earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business.

(2) H1 2017 underlying earnings exclude unrealised losses on derivative contracts of £65 million and material one-off items that do not reflect the underlying performance of the business (H1 2016: unrealised gains of £163 million).

(3) Borrowing less cash and cash equivalents.

(4) SME is Small Medium Enterprise.

~~~~~~~~~~~~~~~~~~~~~~~~~~
~~~~~~~~~~~~~~~~~~~~~~~~~~

Forward Looking Statements

This announcement may contain certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group") are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These factors include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

This announcement contains inside information for the purpose of Article 7 of Regulation (EU) No 596/2014.

~~~~~~~~~~~~~~~~~~~~~~~~

Results presentation meeting and webcast arrangements

Management will host a presentation for analysts and investors at 9:00am (UK time), Wednesday 19 July 2017, at **JP Morgan, 60 Victoria Embankment, London, EC4Y 0JP.**

Would anyone wishing to attend please confirm by either emailing epayne@brunswickgroup.com or calling Emma Payne at Brunswick Group on +44 (0) 20 7396 3556.

The meeting can also be accessed remotely via live webcast, as detailed below. After the meeting, the webcast will be made available and access details of this recording are also set out below.

A copy of the presentation will be made available from 7:00am (UK time) on Wednesday 19 July 2017 for download at: www.drax.com>>investors>>results_and_reports>>investor_relations_presentations or use the link http://www.drax.com/investors/results-and-reports/#investor-relations-presentations

Event Title:	Drax Group plc: Half Year Results
Event Date:	Wednesday 19 July 2017
Event Time:	9:00am (UK time)
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16531/91618/Lobby/default.htm
Start Date:	Wednesday 19 July 2017
Delete Date:	Monday 16 July 2018
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16531/91618/Lobby/default.htm

For further information, please contact Emma Payne at Brunswick Group on +44 (0) 20 7396 5323.

Website:	www.drax.com
~~~~~~~~~~~~~~~~~~~~~~~~

Chief Executive's statement

Introduction

The Group has delivered strong operational performance, and increased EBITDA from £70 million in H1 2016 to £121 million in H1 2017. However, increases to depreciation and amortisation costs and unrealised losses on derivative contracts, resulted in a loss before tax for the period of £(83) million (2016: Profit of £184 million).

Our new Group strategy, which we launched in December 2016, is creating greater diversification for the business as we help to change the way energy is generated, supplied and used for a better future. In doing so we are shifting our earnings profile to deliver higher quality more stable earnings, with opportunities for long-term growth.

In Retail, with the acquisition of Opus Energy and good performance at Haven Power, we significantly increased our customer base and markedly improved profitability in the first half of the year.

Our Generation business, Drax Power, is a predominantly renewable electricity generator with 68% of our output being produced from biomass in the form of sustainable compressed wood pellets. As expected, our coal units ran less often but continued to play an important role providing a range of system support services to the UK electricity system with reliable, flexible and responsive capacity.

In North America, our compressed wood pellet supply business, Drax Biomass, increased its production of good quality, sustainable, cost effective wood pellets for sale to Drax Power. In April, in line with our strategy to increase self-supply, we acquired a 450k tonne wood pellet plant in Louisiana. This increases our production capacity by 50%.

At our Capital Markets Day in June we provided further detail of our strategy and our ambitions for long-term growth across the business, which we expressed with a 2025 EBITDA target of over £425 million. We expect to deliver this across a range of earnings streams, more than a third of which will come from the growth of our Retail and Biomass Supply businesses, complemented by increasingly stable and less commodity exposed generation earnings.

We also announced the Group's new dividend policy which will see us pay £50 million for the 2017 calendar year. This is a level which is sustainable and expected to grow. It follows refinancing we completed in May, which completes the Group's financial model and supports our new strategy.

Strong corporate governance remains as important as ever and to that end we are pleased to be able to complement our experienced Board of directors with the appointment of a new non-executive director. David Nussbaum will join the Board in August 2017 and we look forward to benefitting from his considerable experience as we deliver our sustainability agenda.

Safe and Sustainable Operations

Good safety and sustainability management is at the heart of our operational philosophy.

Safety performance was particularly strong in the period. We achieved our lowest ever total recordable injury rate across the Group of 0.08. This is also good progress against the 0.17 recorded in H1 2016.

Through the period we maintained our rigorous and robust approach to sustainability, to ensure that all of the biomass we use is sustainable, low carbon and fully compliant with the UK's mandatory sustainability standards for biomass. The biomass we use to generate electricity provides a 68% carbon emissions saving against gas. This calculation factors in supply chain emissions associated with manufacturing and transportation. Our biomass life-cycle carbon emissions are 34g CO2/ MJ, less than half of the UK Government's 79g CO2/ MJ limit[1].

Retail

The acquisition of Opus Energy, alongside Haven Power, delivered a step change in customer growth and profits in H1 2017, making the Group the largest challenger business to business (B2B) energy retailer in the UK. EBITDA for Retail increased from £(2) million in H1 2016 to £11 million in H1 2017.

The B2B energy market in the UK has over five million businesses. There are good opportunities for future growth as market shares shift from traditional suppliers to challenger brands like Opus Energy and Haven Power.

Opus Energy is focused on the Small and Medium-sized Enterprise (SME) market, whilst Haven Power focuses on the Industrial and Commercial (I&C) market and larger SMEs. Our two retail businesses provide a highly complementary range of electricity products and services. In addition, through Opus Energy we have now added the sale of gas to our product range.

Led by their experienced management teams these businesses are working well together. We have made good progress with the integration of Opus Energy into the Group, as demonstrated by its continued growth in sales at attractive margins. In addition, Haven Power achieved breakeven profitability, ahead of plan, during H1 2017.

Generation

In biomass generation we have delivered world class operational performance, with output of 7.3TWh in H1 2017 (2016: 7.5TWh). We estimate[2] that we produced 17% of the UK's renewable electricity, enough to power over four million homes. Three of our six generating units are powered by compressed wood pellets and receive support from Renewable Obligation Certificates (for two units) and a Contract for Difference (CfD) (for one unit), which provides us with high levels of revenue visibility through to 2027.

Our renewable electricity generation provides the UK with reliable, flexible and cost effective electricity. Independent research has shown that, on a whole system costs basis, it is the most affordable large-scale renewable on the system[3]. In its recent Future Energy Scenarios report, the electricity system operator (National Grid plc[4]) has identified a role for biomass, well beyond 2027.

H1 2017 saw good operational performance in coal generation, producing 32% of the power station's output, playing an important role in the provision of system stability and earning a range of merchant and contract based revenue streams. Capacity payments worth circa £80 million are secured for 2017-2021, and revenue from ancillary services was £21 million in H1 2017 (£20 million in H1 2016).

In line with our strategy we continue to explore future options for our Generation business. This includes continued engagement with Government to make the case for further biomass upgrades of coal units. During H1 2017 we have been running a trial on one of our coal units to examine the feasibility of a low cost solution for fuelling it with 100% compressed wood pellets using existing co-firing infrastructure. The unit has performed well but there is further work to do to ensure that it delivers high output reliably and safely on a sustained basis, which we believe is achievable. In view of this, we will continue our trial through the summer, but have decided to return the unit to coal fuelling this winter to ensure high availability through the colder months.

We are progressing well with our four rapid response gas projects. Two of our project sites are ready to participate in the UK capacity auctions and we intend to bid them into the February 2018 auction. If successful we will secure fifteen year contracts for capacity delivery starting in winter 2021/2022. Meanwhile, the process of securing the principal permits for the remaining two project sites is progressing well and we aim to enter them into the 2019 capacity auction.

Our Research and Innovation team is currently developing a proposal to look into the feasibility of converting one or more of our coal units to gas. Early indications are that this could be an attractive option for delivering critical flexible and reliable generation capacity for the UK and we expect to continue to develop this as an option over the coming years. Any such investment would be eligible for a fifteen year capacity contract through the UK Government's capacity auctions.

Biomass Supply

Operational performance improved in H1 2017 with increases in production and supply. Production increased from 251k tonnes in H1 2016 to 366k tonnes in H1 2017.

In April we progressed our strategy to self-supply at least 30% of wood pellets for Drax Power Station. We acquired a 450k tonne compressed wood pellet plant out of receivership at a significant discount to the new build cost of the asset. This plant, which we have named LaSalle Bioenergy, is in the same South East US region as our two existing pellet plants, allowing us to maximise the benefits of our presence in this region. It requires further investment to bring it up to the Group's technical standards for safe and reliable operation. This is now underway and we expect the plant to start ramping up operations in Q1 2018 and to reach full capacity output in 2019.

Regulatory

We continue to operate in a changing political and regulatory environment. The full impact of the UK's decision to leave the EU is not yet known, but we continue to utilise medium-term foreign exchange hedges to help protect the Group from volatility in exchange rates leading to volatility in fuel costs. We do not generate power or supply electricity and gas outside of the UK.

In terms of domestic energy policy, the UK Government's main focus has been on what it sees as potentially unfair standard variable tariffs (SVTs) for domestic consumers. The Government has asked our regulator, Ofgem, to address this issue and to ensure microbusinesses are treated fairly. Our retail focus remains on the B2B market.

The Government's consultation on the cessation of coal generation by 2025 closed in December 2016. The consultation asked for views about the potential for co-firing with biomass to allow coal stations to meet tighter emissions limits but we do not yet have any indication of when the conclusions of this consultation will be published. Similarly, the Government's call for evidence on fuelled and geothermal technologies in the CfD scheme closed in March this year. This asked for views on how the CfD scheme should treat biomass conversions in the future but to date the Government has not responded to the part of the consultation relating to fuelled technologies which burn a fuel source derived from biomass. We are also expecting the Government to announce plans for future Carbon Price Support this autumn and are maintaining a dialogue with the Treasury and other Government departments on this issue.

Outlook

For the full year 2017, subject to continued operational performance, we expect EBITDA to be in line with current market consensus.

Beyond this our focus remains on the implementation and delivery of our strategy, which is underpinned by safety, sustainability and operational excellence as well as expertise in our markets. Central to our strategy is the delivery of targeted growth through deploying our expertise across our supply chain and, in so doing, diversifying, growing and improving the quality of our earnings with reduced exposure to commodity market volatility.

In our Retail business we expect to deliver continued growth at Opus Energy at attractive margins and improving profitability at Haven Power.

Our generation assets remain strategically important, delivering cost effective large scale, low carbon renewable power, whilst also playing a significant role in providing critical system support services to the electricity grid. We will continue to actively explore options to expand and upgrade our generation assets, including new opportunities in gas which would provide additional system support services and be underpinned by a stable fifteen year, fixed price, capacity market contract. This would extend earnings visibility to the late 2030's and deliver attractive returns to shareholders.

The focus for our biomass pellet supply business remains on good operational performance, reducing operating costs, cross-supply chain optimisation and identifying attractive options to increase self-supply to at least 30%.

Having made good progress on the delivery of our strategy we will continue to build on it as we progress our targets for 2025, whilst playing an important role in our markets and helping to change the way energy is generated, supplied and used for a better future.

Dorothy Thompson CBE
Chief Executive Officer
18 July 2017

Group Financial Review

Introduction

The Group's performance for the first six months of the year was significantly improved relative to the first six months of 2016, with EBITDA of £121 million (2016: £70 million). This principally reflects contributions from recently acquired Opus Energy and the operation of a biomass unit in Generation under a CfD. This was delivered alongside a well-supported refinancing and underpinned by strong operational performance across the Group.

Profit before tax was adversely impacted by higher depreciation (£22 million), relating to the previously announced accelerated depreciation of coal-specific assets, one off costs associated with the Opus Energy acquisition (£6 million) and the refinancing (£24 million), as well as amortisation of newly-acquired intangible assets in Opus (£19 million). In addition, non-cash unrealised losses on derivative contracts in the period of £65 million moved adversely by £228 million from 30 June 2016, principally a result of foreign exchange rate movements. This resulted in a loss before tax of £83 million for the period (2016: profit £184 million). However, the underlying performance, which excludes this volatility and related tax charges, resulted in underlying earnings of £9 million, as shown in note 5.

The financial structure of the business has changed over the past twelve months and the Group now benefits from increasingly visible and growing earnings from a diversified base, with reducing exposure to commodity prices. We expect the CfD will underpin our earnings through the life of the contract (to March 2027), supported by growing contributions from expanding Biomass Supply operations and our Retail business.

On 10 February 2017 we completed the acquisition of Opus Energy Group Limited for total consideration of £367 million. The acquisition was funded from the Group's own resources and £200 million from an acquisition facility and resulted in £156 million of goodwill and £224 million of intangible assets (see note 8).

As part of our interim review, we have reviewed the principal commercial and operational risks faced by the Group. These risks are set out in our 2016 Annual Report and Accounts (pages 55-61) and remain unchanged.

The Group is supported by a robust balance sheet, strengthened in the period by the refinancing and restructuring of the Group's debt and a continued focus on working capital and cash optimisation.

Financial Performance

Consolidated revenue for the period of £1,801 million was £314 million greater than the same period in 2016, driven by higher Generation sales and the acquisition of Opus Energy.

Electrical output from our Generation business of 10.7TWh was in line with our plan, 68% from biomass-fired units and 32% from coal-fired units.

Retail power revenues increased from £643 million at 30 June 2016 to £940 million at 30 June 2017, including contributions from Opus Energy (from 10 February). Gross margins also improved from £10 million to £61 million, with both businesses contributing to this result.

Revenues and margins for our US-based compressed wood pellet manufacturing business continued to rise, as we increased production from 250,895 tonnes in the first half of 2016 to 366,496 tonnes this year. We are also making good progress on our projects to increase capacity at our two existing facilities and in the work to bring the recently acquired LaSalle Bioenergy in to service in 2018.

Consolidated gross margin to 30 June 2017 of £275 million was driven by improvements across the business and compares to £182 million in the same period in 2016.

Other operating costs of £154 million are higher than £112 million in the first six months of 2016, reflecting the acquisition of Opus Energy and costs associated with strategic development activities.

As a result of these costs and gross margin performance, consolidated EBITDA for 30 June 2017 was £121 million, compared to £70 million in 2016.

Depreciation and amortisation charges increased from £49 million in the first six months of 2016 to £90 million this year. This includes shortening the useful economic life and accelerating depreciation on certain coal-specific assets within Generation to a long stop date of 2025, in line with the Government's stated ambition for the cessation of unabated coal generation. We also recognised intangibles, entirely arising from the Opus acquisition, of £224 million, which resulted in amortisation of £19 million in the period.

Interest payable of £37 million include the costs incurred during the Group's refinancing. A full breakdown of interest payable is shown in note 3 and includes early repayment charges for loans outstanding at the refinancing date.

A key component of the Group's risk management strategy is the use of forward contracts to secure and de-risk the future cash flows of the business. The accounting for these contracts is set out in further detail in note 12 and during the period resulted in an unrealised loss of £65 million, driven by the partial recovery of sterling against the US Dollar.

Loss before tax, calculated in accordance with IFRS was £83 million, including transaction and integration costs incurred through the acquisition of Opus Energy of £6 million, and the Group refinancing costs of £24 million. This compared to a profit of £184 million for the 6 months to June 2016. The movement predominantly reflects volatility in the unrealised gains and losses on derivative contracts.

After a tax credit for the period of £14 million (2016: charge of £36 million), loss after tax was £68 million (2016: profit of £149 million), delivering a basic loss per share of (16.8) pence (2016: Earnings of 36.6 pence).

Underlying earnings is used to assess the performance of our Group without P&L volatility. The reconciliation of IFRS earnings to underlying earnings is shown in note 5 and results in underlying profit after tax for the six months of £9 million (2016: £17 million) or 2.2 pence per share (2016: 4.2 pence per share).

Cash taxes paid during the period were £9 million (2016: £2 million cash taxes repaid).

Financial Position

Capital expenditure in the period was £79 million, increased from £38 million in the first six months of 2016. This included the purchase, at auction, of the pellet-production assets at LaSalle Bioenergy ($35 million), details of which are shown in note 11, and investment in an office facility in Northampton (£10 million), which will be used to consolidate existing Opus Energy operations in that area. Other investment reflected routine asset replacement at Drax Power Station, including the purchase of strategic spares, and the development of a new information technology platform for Retail.

Cash generated from operations amounted to £235 million in the period, an £82 million increase from the previous year. This was supported by initiatives designed to improve cash flows and release working capital from our balance sheet.

The cash position during the first half was significantly impacted by a full Group refinancing, which was executed on 5 May 2017. The Group successfully raised £550 million of publicly traded bonds, supported by a revised revolving credit facility of £350 million.

During the period the newly-raised funds were used to repay the £200 million Opus Energy acquisition facility and going forward will provide support for our investment and strategic programmes.

Net debt at 30 June was £372 million, compared to £85 million at the end of June 2016.

Distributions

On 15 June we announced a new dividend policy, consistent with maintaining the Group's credit rating and investing in its business.

In 2017 the Board expects to recommend a dividend of £50m with regards to the 2017 financial year. The Board is confident that this dividend is sustainable and expects it to grow from this level as the implementation of the strategy generates an increasing proportion of stable earnings and cash flows. In determining the rate of growth in dividends the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity based businesses. If there is a build-up of capital in excess of the Group's investment needs the Board will consider the most appropriate mechanism to return this to shareholders.

At the Annual General Meeting on 13 April 2017, shareholders approved payment of a final dividend for the year ended 31 December 2016 of 0.4 pence per share (£1.6 million). The final dividend was subsequently paid on 12 May 2017.

On 18 July 2017, the Board resolved to pay an interim dividend for the six months ended 30 June 2017 of 4.9 pence per share (£20 million), representing 40% of the expected full year dividend. The interim dividend will be paid on 6 October 2017 and shares will be marked ex-dividend on 21 September 2017.

Other information

Going Concern

The Group's business activities, together with the factors likely to affect future developments, financial position and financial performance, including principal risks and uncertainties, are discussed within the Chief Executive's statement (on pages 4 to 6), this Group Financial Review and our 2016 Annual Report and Accounts.

Our cash flows and borrowing facilities are described above. In addition, section 7 of the consolidated financial statements in the 2016 Annual Report and Accounts explains our approach to capital risk management and exposure to financial risks (including credit, counterparty and liquidity risk) and gives details of financial instruments and hedging activities used to mitigate these risks and exposures.

Following the refinancing described above, we have substantial headroom in our banking facilities, a recent history of cash generation and strong covenant compliance. We retain good visibility in near-term forecasts due to our progressive hedging strategy. Our business plan is updated quarterly and takes account of our capital investment plans and reasonably possible changes in trading performance, including sensitivity analysis on downside scenarios.

We are satisfied that we are able to operate the business within the current level of our banking facilities, that we will remain compliant with our covenants and that we will have sufficient cash available to meet our obligations as they fall due for the foreseeable future.

Consequently, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and, as a result, continue to prepare the financial statements on a going concern basis.

Principal risks and uncertainties

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board. We set out in detail in our 2016 Annual Report and Accounts (pages 55-61) the principal risks and uncertainties that could impact performance. We have reviewed the principal risks and consider they are broadly unchanged and will continue to be relevant over the second half of the year.

We recognise that the UK's decision to leave the European Union in 2016 and the recent UK election result have increased political and regulatory uncertainty. The Group continues to monitor this situation closely but at this stage we do not detect increasing risks for our businesses. We continue to promote the benefits of biomass and are engaged with government and regulators in the UK and internationally to ensure the Group's views and positions on current and forthcoming legislation and regulations, and on energy and environmental policy issues that may have implications for our business, are represented.

Seasonality of Trading

The primary activities of our Group are affected by seasonality. Demand in the UK, for electricity, gas and heat, is typically higher and thus drives higher prices and dispatch in the winter period (October to March) when temperatures are colder. Conversely, demand is typically lower in the summer months (April to September), when prices are lower.

This trend is experienced by all of our UK-based businesses, as they variously operate within the UK electricity, gas and heat markets, and is most notable within the Generation business due to its scale and the flexible operation of coal-fired plant when prices are low in the summer. The US-based Biomass Supply business has a regular production and despatch schedule, driven by regular demand from the Generation business for wood pellets, which insulates it from demand fluctuations caused by seasonality.

Cash flow during the summer months can thus be materially reduced due to the combined effects of lower demand, prices and output, while maintenance expenditures are increased due to the timing of major planned outages. The Group's amended £350 million working capital and revolving credit facility assists in managing cash low points in the cycle if required.

Related parties

The Group set out in its 2016 Annual Report and Accounts (page 166) the related party transactions arising which were in relation to remuneration of management personnel. There have been no new related party transactions, other than the remuneration of key management personnel, since 31 December 2016.

The contents of this report were approved by the Board on 18 July 2017.

Will Gardiner
Chief Financial Officer
18 July 2017

Directors' responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Dorothy Thompson CBE Chief Executive Officer 18 July 2017	**Will Gardiner** Chief Financial Officer 18 July 2017

Interim Condensed Consolidated Financial Statements

Introduction

The Interim Condensed Consolidated Financial Statements provide detailed information about the financial performance (Condensed consolidated income statement), financial position (Condensed consolidated balance sheet), and cash flows (Condensed consolidated cash flow statement) of Drax Group plc (the Company) together with all of the entities controlled by the Company (collectively, the Group).

The notes to the financial statements provide additional information on the items in the Condensed consolidated income statement, Condensed consolidated balance sheet and Condensed consolidated cash flow statement. In general, the additional information in the notes to the financial statements is required by IFRS or other regulations to facilitate increased understanding of the primary statements.

Basis of preparation

The Interim Condensed Consolidated Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRSs) as adopted by the EU and in accordance with IAS 34 "Interim Financial Reporting". The information provided in respect of year ended 31 December 2016 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The Interim Condensed Consolidated Financial Statements have been prepared on the going concern basis, as explained on page 9, and on the historical cost basis, except for certain assets and liabilities that have been measured at fair value (principally derivative financial instruments and acquired intangible assets).

The Interim Condensed Consolidated Financial Statements were approved by the Board on 18 July 2017.

Significant events and transactions

The financial position and performance of the Group was particularly affected by the following events and transactions during the six months to 30 June 2017:

- On 10 February 2017, the Group acquired 100% of the issued equity of Opus Energy Group Limited ("Opus Energy"). The consolidated results for the period include the post-acquisition trading results of Opus Energy. In addition, intangible assets of £224 million have been recognised in the Group's consolidated balance sheet. See note 8 for further details.
- On 13 April 2017, the Group acquired the assets of a compressed wood pellet manufacturing facility in Urania, Louisiana, USA. The assets, which were acquired via an auction for a total cost of $35 million, have been included in the Group's property, plant and equipment at 30 June. Further details can be found in note 11.
- On 5 May 2017, the Group refinanced its debt facilities, replacing the existing term loans (including a £200 million facility drawn to part-fund the Opus Energy acquisition) and revolving credit facility with a high yield bond (comprised of £350 million fixed rate bonds and £200 million floating rate bonds) and a new £350 million revolving credit facility. Full details of new debt facilities are included in note 15. Interest costs, including those expensed as a result of the refinancing, are explained in note 3.

Adoption of new and revised accounting standards

Since the 2016 Annual Report and Accounts were published, the Group has not made any changes in its accounting policies which would result in retrospective adjustments to the published results. Note 19 contains information relating to the potential impact of three new IFRS standards which are in issue but not yet adopted by the Group, and which will be applicable from 1 January 2018 (IFRS 9 and IFRS 15) and 1 January 2019 (IFRS 16).

The acquisition of Opus Energy has given rise to the recognition of intangible assets which will be amortised over their useful lives. The Group has not previously held any intangibles with a defined useful life. The judgements and estimates relating to the valuation and amortisation of these assets have been disclosed in note 8.

Judgements and estimates

The judgements and estimates applied to the preparing of the Interim Condensed Consolidated Financial Statements are consistent with those described in detail on pages 117-118 of the Group's Annual Report and Accounts for 2016, except for those noted below.

As noted in section 3.1 (page 138) of the 2016 Annual Report, the useful economic lives of certain coal-specific assets have been reviewed. This followed the Government's announcement to consult on the future closure of unabated coal-fired generation. In the light of this announcement, it was concluded that coal generation will cease during 2025, but that the three coal units will be retained for conversion to alternative fuel sources after this date. An initial assessment of the coal-specific assets affected by this change suggested that depreciation charges would be increased by £27 million per annum until 2025. Following a detailed review of the assets that will be affected, the increase in depreciation charges is expected to be £15 million per annum. Accordingly, approximately half of this has been charged to the income statement for the six months ended 30 June 2017. The detailed review has also identified further Generation assets with a shortened useful life and additional one-off charge of £4 million has been charged in respect of these assets in the current period.

Following the acquisition of Opus Energy, the Retail businesses have, where appropriate, aligned their judgements, estimates and approach. Key judgements that have been reflected in the condensed financial statements in respect of Opus Energy include:

- the valuation of land and buildings – these have been valued at their market value at the date of acquisition, resulting in a £2 million uplift in non-current assets;
- valuation of intangible assets – the key judgements in the valuations of these assets are disclosed in note 8; and
- the estimation of costs and revenues resulting from electricity and gas supplies to customers – these are aligned to the approaches taken on the existing Retail business, as disclosed in the 2016 Annual Report and Accounts.

We have also reviewed the risk of impairment, as we did at 31 December 2016 (explained in Section 2.4 (page 130) of the 2016 Annual Report and Accounts). There have been no significant changes to the judgements and estimates made at 31 December 2016 in this respect.

Alternative performance measures (APMs)

We present two APMs (measures without formal definition within IFRS) on the face of our income statement to assist investors in evaluating the comparability of the Group's financial performance and the performance against strategic objectives.

EBITDA is the primary measure we use to assess our financial performance. The purpose of EBITDA is to provide a consistent, comparable measure of the trading performance of the Group's businesses year on year.

EBITDA is defined as earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business.

The purpose of underlying earnings is to provide a consistent, comparable measure of the overall financial performance of the Group's businesses year on year, including costs of servicing the existing debt and tax.

Underlying earnings is defined as profit after tax, as calculated in accordance with IFRS, adjusted to exclude unrealised gains and losses on derivative contracts and material one-off items that do not reflect the underlying performance of the business.

EBITDA is reconciled to both gross profit and operating profit on the face of the income statement. A reconciliation of underlying earnings to profit after tax attributable to shareholders is provided in note 5.

Condensed consolidated income statement

	Notes	Six months ended 30 June 2017 (Unaudited) £m	Six months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Revenue		**1,800.5**	1,486.5	2,949.8
Fuel costs in respect of generation		**(561.5)**	(516.4)	(1,154.2)
Cost of power purchases		**(489.2)**	(457.1)	(907.8)
Grid charges		**(239.2)**	(181.7)	(379.7)
Other retail costs		**(235.4)**	(149.1)	(131.8)
Total cost of sales		**(1,525.3)**	(1,304.3)	(2,573.5)
Gross profit		**275.2**	182.2	376.3
Other operating and administrative expenses		**(154.4)**	(111.9)	(236.3)
EBITDA[(1)]		**120.8**	70.3	140.0
Transaction and integration costs [(2)]		**(6.3)**	-	-
Depreciation and amortisation		**(89.6)**	(49.3)	(109.5)
Loss on disposal		**-**	(2.7)	(3.8)
Unrealised (losses)/gains on derivative contracts		**(64.7)**	163.4	176.8
Operating (loss)/profit		**(39.8)**	181.7	203.5
Interest payable and similar charges	3	**(36.6)**	(11.1)	(29.0)
Interest receivable and similar income	3	**-**	0.6	0.6
Foreign exchange (losses)/gains	3	**(6.3)**	13.0	22.0
(Loss)/profit before tax		**(82.7)**	184.2	197.1
Tax credit/(charge)	4	**14.3**	(35.5)	(3.2)
(Loss)/profit for the period attributable to equity holders		**(68.4)**	148.7	193.9
(Loss)/earnings per share		**pence**	pence	pence
– Basic	7	**(16.8)**	36.6	47.7
– Diluted	7	**(16.7)**	36.3	47.4
		£m	£m	£m
Underlying earnings for the period [(3)]	5	**8.9**	16.9	20.5
		pence	pence	Pence
Underlying earnings per share [(3)]	7	**2.2**	4.2	5.0

All results relate to continuing operations.

(1) EBITDA is defined as: Earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance on the business.

(2) Transaction and integration costs reflect costs associated with the acquisition and integration of Opus Energy Group Limited into the Group.

(3) Underlying earnings is defined as: Profit after tax, as calculated in accordance with IFRS, adjusted to exclude unrealised gains and losses on derivative contracts and material one-off items that do not reflect the underlying performance of the business (see note 5).

Condensed consolidated statement of comprehensive income

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
(Loss)/profit for the period	**(68.4)**	148.7	193.9
Items that will not be reclassified subsequently to profit or loss:			
Actuarial gains/(losses) on defined benefit pension scheme	**11.3**	5.4	(8.4)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	**(2.2)**	(1.0)	1.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	**0.2**	(8.0)	(9.1)
Fair value (losses)/gains on cash flow hedges	**(142.3)**	214.3	330.1
Deferred tax on cash flow hedges	**27.4**	(39.4)	(62.6)
Impact of corporation tax rate change on deferred tax on cash flow hedges	**-**	-	3.0
Other comprehensive (expense)/income for the period	**(105.6)**	171.3	254.6
Total comprehensive (expense)/income for the period attributable to equity holders	**(174.0)**	320.0	448.5

Condensed consolidated balance sheet

	Notes	2017 (Unaudited) £m	As at 30 June 2016 (Unaudited) £m	As at 31 December 2016 (Audited) £m
Assets				
Non-current assets				
Intangible assets	9	**225.9**	-	21.7
Goodwill	10	**170.2**	14.5	14.5
Property, plant and equipment	11	**1,655.0**	1,640.2	1,641.5
Deferred tax assets		**39.0**	-	33.5
Derivative financial instruments	12	**301.3**	481.2	486.3
		2,391.4	2,135.9	2,197.5
Current assets				
Inventories		**207.8**	222.7	287.5
ROC and LEC assets		**365.8**	396.2	257.6
Trade and other receivables		**360.4**	232.5	292.9
Derivative financial instruments	12	**271.3**	330.2	405.0
Cash and cash equivalents		**197.0**	234.8	228.4
		1,402.3	1,416.4	1,471.4
Liabilities				
Current liabilities				
Trade and other payables		**784.5**	590.5	591.9
Current tax liabilities		**35.4**	7.0	6.1
Borrowings	15	**0.8**	0.9	35.9
Derivative financial instruments	12	**165.9**	192.4	251.0
		986.6	790.8	884.9
Net current assets		**415.7**	625.6	586.5
Non-current liabilities				
Borrowings	15	**568.3**	318.9	286.0
Derivative financial instruments	12	**78.5**	206.3	112.5
Provisions		**34.9**	30.9	35.0
Deferred tax liabilities		**236.3**	261.7	275.2
Retirement benefit obligations		**15.5**	20.6	30.1
		933.5	838.4	738.8
Net assets		**1,873.6**	1,923.1	2,045.2
Shareholders' equity				
Issued equity		**47.0**	47.0	47.0
Capital redemption reserve		**1.5**	1.5	1.5
Share premium		**424.3**	424.2	424.2
Merger reserve		**710.8**	710.8	710.8
Hedge reserve	14	**190.5**	209.8	305.4
Translation reserve		**(10.0)**	-	(10.2)
Retained profits		**509.5**	529.8	566.5
Total shareholders' equity		**1,873.6**	1,923.1	2,045.2

Condensed consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Translation reserve £m	Retained profits £m	Total £m
At 1 January 2016	**46.9**	**1.5**	**424.2**	**710.8**	**34.9**	**(1.1)**	**385.2**	**1,602.4**
Profit for the year	-	-	-	-	-	-	193.9	193.9
Other comprehensive income/(expense)	-	-	-	-	270.5	(9.1)	(6.8)	254.6
Total comprehensive income for the year	-	-	-	-	270.5	(9.1)	187.1	448.5
Equity dividends paid	-	-	-	-	-	-	(11.0)	(11.0)
Issue of share capital	0.1	-	-	-	-	-	-	0.1
Movement in equity associated with share-based payments	-	-	-	-	-	-	5.2	5.2
At 31 December 2016	**47.0**	**1.5**	**424.2**	**710.8**	**305.4**	**(10.2)**	**566.5**	**2,045.2**
At 1 January 2016	**46.9**	**1.5**	**424.2**	**710.8**	**34.9**	**(1.1)**	**385.2**	**1,602.4**
Profit for the period	-	-	-	-	-	-	148.7	148.7
Other comprehensive income/(expense)	-	-	-	-	174.9	-	(3.6)	171.3
Total comprehensive income for the period	-	-	-	-	174.9	-	145.1	320.0
Equity dividends paid	-	-	-	-	-	-	(2.4)	(2.4)
Issue of share capital	0.1	-	-	-	-	-	-	0.1
Movement in equity associated with share-based payments	-	-	-	-	-	-	3.0	3.0
At 30 June 2016	**47.0**	**1.5**	**424.2**	**710.8**	**209.8**	**(1.1)**	**530.9**	**1,923.1**
At 1 January 2017	**47.0**	**1.5**	**424.2**	**710.8**	**305.4**	**(10.2)**	**566.5**	**2,045.2**
(Loss) for the period	-	-	-	-	-	-	(68.4)	(68.4)
Other comprehensive income/(expense)	-	-	-	-	(114.9)	0.2	9.1	(105.6)
Total comprehensive income for the period	-	-	-	-	(114.9)	0.2	(59.3)	(174.0)
Equity dividends paid	-	-	-	-	-	-	(1.6)	(1.6)
Issue of share capital	-	-	0.1	-	-	-	-	0.1
Movement in equity associated with share-based payments	-	-	-	-	-	-	3.9	3.9
At 30 June 2017	**47.0**	**1.5**	**424.3**	**710.8**	**190.5**	**(10.0)**	**509.5**	**1,873.6**

Condensed consolidated cash flow statement

	Notes	Six months ended 30 June 2017 (Unaudited) £m	Six months ended 30 June 2016 (Unaudited) £m	Year ended 31 December 2016 (Audited) £m
Cash generated from operations	16	**235.2**	152.7	213.1
Income taxes (paid)/refunded		**(9.0)**	1.6	(1.7)
Other (losses)/gains/		**(0.9)**	5.2	0.7
Interest paid		**(29.1)**	(8.6)	(21.7)
Interest received		**0.3**	0.2	0.4
Net cash from operating activities		**196.5**	151.1	190.8
Cash flows from investing activities				
Purchases of property, plant and equipment		**(83.2)**	(47.8)	(93.2)
Acquisition of subsidiary		**(379.8)**	–	–
Net cash used in investing activities		**(463.0)**	(47.8)	(93.2)
Cash flows from financing activities				
Equity dividends paid	6	**(1.6)**	(2.4)	(11.0)
Proceeds from issue of share capital		**-**	0.1	0.1
Repayment of borrowings		**(493.8)**	–	–
New borrowings drawn down	15	**750.0**	–	–
Other financing costs paid		**(17.4)**	–	–
Net cash used in financing activities		**237.2**	(2.3)	(10.9)
Net (decrease)/increase in cash and cash equivalents	17	**(29.3)**	101.0	86.7
Cash and cash equivalents at beginning of the period		**228.4**	133.8	133.8
Effect of changes in foreign exchange rates		**(2.1)**	–	7.9
Cash and cash equivalents at end of the period		**197.0**	234.8	228.4

Notes to the condensed consolidated financial statements

1. General information

These notes provide additional information about the disclosures within the condensed consolidated financial statements. Further information can be found in our 2016 Annual Report and Accounts on pages 117 – 166.

Drax Group plc (the Company) is incorporated in England and Wales under the Companies Act. The Company and its subsidiaries (together, the Group) operate in the electricity, gas and heat markets within the UK. The address of the Company's registered office and principal establishment is Drax Power Station, Selby, North Yorkshire, YO8 8PH, United Kingdom.

2. Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central head office providing certain corporate functions. Our businesses are:

- Generation: the generation of electricity at Drax Power Station;
- Biomass Supply: production of sustainable compressed wood pellets at our processing facilities in the US; and
- Retail: the supply of electricity and gas to business customers and wood pellets to the domestic heat market.

Each of these business units is an operating segment for the purpose of segmental reporting. Information reported to the Board for the purposes of assessing performance and making investment decisions is organised into these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA (as defined on page 12).

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Unallocated costs are included in central operating costs.

During the period, the Group acquired 100% of the share capital of Opus Energy Group Limited, a retail business supplying electricity and gas to business customers. This new acquisition forms part of the Retail segment, in line with the internal reporting structure for its results. Note 8 details the additional revenue and profit attributable to the Group from the new acquisition.

The primary activities of the Group are affected by seasonality as described on page 9 and is reflected in the results below.

Segment revenues and results
The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2017:

	Six months ended 30 June 2017 (Unaudited)				
	Generation £m	**Retail £m**	**Biomass Supply £m**	**Adjustments [1] £m**	**Consolidated £m**
Revenue					
External sales	**860.4**	**940.1**	**-**	**-**	**1,800.5**
Inter-segment sales	**337.9**	**-**	**54.3**	**(392.2)**	**-**
Total revenue	**1,198.3**	**940.1**	**54.3**	**(392.2)**	**1,800.5**
Segment gross profit	**203.6**	**60.8**	**13.0**	**(2.2)**	**275.2**
Segment EBITDA	**136.7**	**11.4**	**(4.4)**	**(2.2)**	**141.5**
Central operating costs					**(20.7)**
Consolidated EBITDA					**120.8**
Depreciation and amortisation					**(89.6)**
Transaction and integration costs					**(6.3)**
Unrealised losses on derivative contracts					**(64.7)**
Operating loss					**(39.8)**
Net finance costs					**(42.9)**
Loss before tax					**(82.7)**

[1] Adjustments represent the elimination of intra-group transactions. Intra-group transactions are carried out on arm's-length, commercial terms that where possible equate to market prices at the time of the transaction.

The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2016:

	Six months ended 30 June 2016 (Unaudited)				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments [1] £m	Consolidated £m
Revenue					
External sales	843.8	642.7	-	-	1,486.5
Inter-segment sales	338.5	-	31.6	(370.1)	-
Total revenue	1,182.3	642.7	31.6	(370.1)	1,486.5
Segment gross profit	167.2	9.7	7.2	(1.9)	182.2
Segment EBITDA	85.8	(2.4)	(2.8)	-	80.6
Central operating costs					(10.3)
Consolidated EBITDA					70.3
Depreciation and amortisation					(49.3)
Loss on disposal					(2.7)
Unrealised gains on derivative contracts					163.4
Operating profit					181.7
Net finance costs					2.5
Profit before tax					184.2

[1] Adjustments represent the elimination of intra-group transactions. Intra-group transactions are carried out on arm's-length, commercial terms that where possible equate to market prices at the time of the transaction.

The following is an analysis of the Group's results by reporting segment in the year ended 31 December 2016:

	Year ended 31 December 2016 (Audited)				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments [1] £m	Consolidated £m
Revenue					
External sales	1,622.7	1,326.4	0.7	—	2,949.8
Inter-segment sales	868.2	—	72.9	(941.1)	—
Total revenue	2,490.9	1,326.4	73.6	(941.1)	2,949.8
Segment gross profit	337.0	23.5	18.1	(2.3)	376.3
Segment EBITDA	173.8	(4.3)	(6.3)	(2.3)	160.9
Central operating costs					(20.9)
Consolidated EBITDA					140.0
Depreciation and amortisation					(109.5)
Loss on disposal					(3.8)
Unrealised gains on derivative contracts					176.8
Operating profit					203.5
Net finance costs					(6.4)
Profit before tax					197.1

[1] Adjustments represent the elimination of intra-group transactions. Intra-group transactions are carried out on arm's-length, commercial terms that where possible equate to market prices at the time of the transaction.

Interest, tax, assets and working capital are monitored on a Group basis with no separate disclosure by segment made in the management accounts, and hence no separate asset disclosure is provided in this report. However, investment on key capital projects at segment level is monitored.

In the period, total capital investment was £79.0 million. The significant movements relate to expenditure of £27 million for the purchase of the assets of LaSalle Bioenergy within the US-based Biomass Supply segment and £15 million relating to the Retail segment, which is predominantly £10.4 million for a new office facility for Opus Energy.

Major customers
Total revenue for the six months ended 30 June 2017 includes amounts of £215 million and £204 million (H1 2016: £282.0 million and £222.7 million) derived from two customers (H1 2016: two customers), each representing 10% or more of the Group's revenue for the period.

3. Net interest (charge)/credit

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
Interest payable and similar charges:			
Interest payable on borrowings	**(9.5)**	(9.1)	(19.4)
Unwinding of discount on provisions	**0.4**	(0.4)	(4.5)
Net cost of refinancing	**(24.2)**	-	-
Amortisation of deferred finance costs	**(1.7)**	(1.1)	(2.1)
Net finance cost in respect of defined benefit pension scheme	**(0.3)**	(0.5)	(0.9)
Other financing charges	**(1.3)**	-	(2.1)
Total interest payable and similar charges	**(36.6)**	(11.1)	(29.0)
Interest receivable and similar income:			
Interest income on bank deposits	**-**	0.3	0.6
Other financing income	**-**	0.3	-
Total interest receivable and similar income	**-**	0.6	0.6
Foreign exchange (losses)/gains	**(6.3)**	13.0	22.0
Net interest (charge)/credit	**(42.9)**	**2.5**	(6.4)

On 5 May 2017, the Group refinanced its external debt. The resulting cost of £24.2 million (H1 2016: £Nil) reflects the costs incurred to extinguish the existing debt together with the write off of the related deferred finance costs. Further information about the new finance structure can be found in note 15.

4. Taxation

The tax charge includes both current and deferred tax. For interim periods, the tax charge is based upon the expected tax rate for the full year which is applied to taxable profits/losses for the interim period.

Current tax, including UK corporation tax and foreign tax, is the amount payable on taxable profits (profit before tax adjusted for items upon which we are not required to pay tax, or in some cases for items upon which we are required to pay additional tax in respect of tax-disallowed expenditure) in the period. Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules.

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
Tax (credit)/charge comprises:			
Current tax	**45.6**	6.1	8.5
Deferred tax before impact of corporation tax change	**(59.9)**	29.4	4.5
Deferred tax impact of corporation tax change	**-**	-	(9.8)
Tax (credit)/charge	**(14.3)**	35.5	3.2

5. Underlying earnings

Underlying earnings is defined as profit after tax, as calculated in accordance with IFRS, adjusted to exclude unrealised gains or losses on derivative contracts and material one-off items that do not reflect the underlying performance of the business.

This note analyses the items which are included in our results for the current and previous periods but are excluded from underlying earnings:

- Unrealised gains and losses on derivative contracts: calculated in accordance with IAS 39 and excluded due to the inherent volatility
- Transaction and integration costs: costs associated with the acquisition and integration of Opus Energy have been excluded as material one-off costs incurred in the period
- Cost of refinancing: material costs incurred as a result of the refinancing transactions and include break costs and the acceleration of amortisation of deferred finance costs associated with the previous facilities.
- Deferred tax on start-up losses and other temporary differences: credit resulting from the recognition of a deferred tax asset in the Biomass Supply business. This was excluded from underlying earnings in 2016 as a material one-off item.
- Related tax charges and credits

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**(68.4)**	148.7	193.9
Adjusted for:			
Unrealised gains and losses on derivative contracts	**64.7**	(163.4)	(176.8)
Transaction and integration costs	**6.3**	-	-
Cost of refinancing	**24.2**	-	-
Tax impact of the above adjustments	**(17.9)**	31.6	33.9
Deferred tax on start-up losses and other temporary differences	**-**	-	(30.5)

Underlying earnings attributable to equity holders of the Company	**8.9**	16.9	20.5

6. Dividends

		Six months ended 30 June		Year ended 31 December
	Pence per share	**2017 (Unaudited) £m**	2016 (Unaudited) £m	2016 (Audited) £m
Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):				
Final dividend for the year ended 31 December 2016 paid 12 May 2017	**0.4**	**1.6**	-	-
Interim dividend for the year ended 31 December 2016 paid 7 October 2016	2.1	-	-	8.6
Final dividend for the year ended 31 December 2015 paid 13 May 2016	0.6	-	2.4	2.4
		1.6	2.4	11.0

On 18 July 2017, the Board resolved to pay an interim dividend of 4.9 pence per share (£20 million), representing 40% of the expected full year dividend in line with our new dividend policy. The interim dividend will be paid on 6 October 2017 and shares will be marked ex-dividend on 21 September 2017.

The Group has sufficient retained profits, which are accessible by the Parent Company, for future distributions in accordance with the Group's dividend policy.

7. Earnings per share

Earnings per share (EPS) represents the amount of our earnings (post-tax profits) attributable to each ordinary share or dilutive potential ordinary share we have in issue. Basic EPS is calculated by dividing our earnings by the weighted average number of ordinary shares in issue during the period. Diluted EPS demonstrates the impact upon the basic EPS if all outstanding share options, that are expected to vest on their future maturity dates, were exercised and treated as ordinary shares as at the balance sheet date.

In addition to EPS, we calculate underlying EPS. Underlying EPS is based upon underlying earnings as defined in note 5.

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

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited)	2016 (Unaudited)	2016 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**406.8**	406.7	406.6
Effect of dilutive potential ordinary shares under share plans	**3.7**	2.5	2.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**410.5**	409.2	409.3

(Loss)/earnings per share – basic (pence)	**(16.8)**	36.6	47.7
(Loss)/earnings per share – diluted (pence)	**(16.7)**	36.3	47.4
Underlying earnings per share – basic (pence)	**2.2**	4.2	5.0
Underlying earnings per share – diluted (pence)	**2.2**	4.1	5.0

8. Acquisition of Opus Energy

The acquisition of Opus Energy Group Limited (Opus Energy) was approved by shareholders on 8 February 2017 and subsequently completed on 10 February 2017.

Opus Energy is a well-established energy retail business serving business customers in the SME market. Opus Energy has contributed positively to earnings and cash flow immediately following the acquisition and the combination provides a robust platform for future growth.

The purchase consideration was £340 million plus interest calculated on the amount of Opus Energy's net assets from 31 March 2016 to the acquisition completion date. The total consideration was £367 million and was funded by a combination of existing cash reserves (£167 million) and partial drawing of a £375 million acquisition facility (£200 million). This facility was repaid as part of the refinancing described in note 15.

Acquisition related costs in the period amounted to £6.3 million and have been included in 'transaction and integration' costs on the income statement.

The fair values of the identifiable assets acquired and the liabilities assumed were provisionally determined as follows:

Opening balance sheet as at 10 February 2017	**Total £m**
Intangible assets:	
Customer related assets	211.0
Brand	11.3
Software	1.2
Total identifiable intangible assets	223.5
Financial assets	215.4
Property, plant and equipment	7.5
Financial liabilities	(194.0)
Deferred tax liability	(40.7)
Total identifiable net assets	**211.7**
Goodwill	155.7
Fair value of consideration payable	**367.4**

Income statement items for the period from 10 February to 30 June 2017	
Revenue	263.4
EBITDA	11.5
Profit before tax	10.7

These items exclude the effect of fair value adjustments included in the consolidated accounts.

Following the acquisition, the Group has been able to identify and measure the fair value of existing customer contracts and relationships, the Opus Energy brand and software. The assets will be amortised over their useful economic lives as follows:

- Existing customer related assets 11 years (reducing balance)
- Brand 10 years (straight line)
- Software 3 years (straight line)

The fair value measurement of the existing customer contracts requires judgement and assumptions, in particular regarding margins on current customer contracts, future contract renewal rates and future margins on renewed contracts. The goodwill of £156 million initially recognised on acquisition is largely reflective of potential new customer contracts and relationships, and growth opportunities together with the assembled workforce. None of the goodwill is deductible for tax purposes.

The financial assets acquired include £128 million of receivables, the majority of which reflect the trade receivables for energy supplied to customers. By virtue of their short tenor, the fair value of these receivables is considered to be the contractual amounts receivable less any provision for doubtful debts. The provision for doubtful debts as at the acquisition date was £16 million.

Pro forma information

The pro forma consolidated results of the Group, assuming the acquisitions had been made at the beginning of the year, would show revenue of £353 million (compared to reported revenue of £263 million), EBITDA of £14 million, compared to the reported EBITDA of £12 million) and profit after taxation of £14 million (compared to reported profit after taxation of £11 million). This pro forma information includes the revenue and profits made by the acquired business between the beginning of the financial year and the date of acquisition, without accounting policy alignments and/or the impact of fair value uplifts resulting from purchase accounting considerations. This pro forma aggregated information is not necessarily indicative of the results of the combined Group that would have occurred had the acquisitions actually been made at the beginning of the year presented, or indicative of the future results of the combined Group.

9. Intangible assets

A summary of the movements in the net book value of intangible assets for the 6-month period is as follows:

	Intangibles £m
Net book value at 1 January 2017	21.7
Additions	223.5
Utilised in period	(0.8)
Amortisation	(18.5)
Net book value at 30 June 2017	225.9

The additions to intangible assets recognised in the period relate to the acquisition of Opus Energy as explained in note 8.

10. Goodwill

As explained in note 8, significant goodwill has been recognised as a result of the acquisition of Opus Energy.

A summary of the movements in the net book value of goodwill for the 6-month period is as follows:

	Goodwill £m
Net book value at 1 January 2017	14.5
Opus Energy acquisition	155.7
Net book value at 30 June 2017	170.2

11. Property, plant and equipment

On 13 April 2017, the Group acquired the wood pellet manufacturing plant owned by Louisiana Pellets Inc, for a consideration of $35 million (£27.4 million). The assets of the plant were acquired at auction through a bankruptcy court and do not constitute a business in their own right. At the point of acquisition, the plant was not operational, there was no workforce in place and no raw material contracts for it to operate as a business. In accordance with the requirements of IFRS 3 – business combinations, the acquisition has been accounted for as an asset acquisition.

During the second half of the year, the plant will undergo a re-fit and re-commissioning period and will then provide additional wood pellet capacity in the region of 450k tonnes pa, playing an important part in Drax's strategy to build a flexible supply chain capable of self-supplying 30% of its generation requirement.

A summary of the movements in the net book value of property, plant and equipment for the period is as follows:

	£m
Net book value at 1 January 2017	1,641.5
Pellet plant acquired	27.4
Other additions	51.6
Depreciation	(71.1)
Other movements	5.6
Net book value at 30 June 2017	1,655.0

12. Derivative financial instruments

We enter into forward contracts for the purchase and sale of physical commodities (principally power, gas, coal, sustainable biomass and CO2 emissions allowances) to secure market level bark and dark green spreads on future electricity sales and also financial contracts (principally currency exchange contracts, financial coal and oil derivatives) to fix Sterling cash flows.

We hold these contracts for risk management purposes, to manage key risks facing the business including commodity price risk and foreign currency risk.

At the balance sheet date all contracts (subject to certain exemptions described below) must be measured at fair value, which is in essence the difference between the price we have secured in the contract, and the price we could achieve in the market at that point in time.

Changes in fair value are recognised either in the income statement or, if the contract in question qualifies as an effective hedge under IFRS, the hedge reserve.

Where possible, the Group has taken advantage of the "own use" exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting and therefore not recognised in the financial statements until the contract is performed. This applies to certain contracts for physical commodities entered into and held for our own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, and coal from domestic sources. It also applies to forward purchase contracts of electricity and gas for use in the Retail business.

Contracts which do not qualify for the own use exemption are accounted for as derivatives in accordance with IAS 39 and are recorded in the balance sheet at fair value, with changes in fair value reflected through the hedge reserve (note 14) to the extent that the contracts are designated as effective hedges in accordance with IAS 39, or the income statement where the hedge accounting requirements are not met. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges, regardless of whether the specific criteria for hedge accounting are met.

Forward contracts for the sale of power, purchase of coal from international sources, purchase of CO2 emissions allowances, gas (collectively "Commodity contracts") and financial coal, financial oil and foreign currency exchange contracts (collectively "Financial contracts") are recorded in the balance sheet at fair value as follows:

		As at 30 June	As at 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
Assets			
Commodity contracts	**52.0**	160.1	102.8
Financial contracts	**520.6**	651.3	788.5
	572.6	811.4	891.3
Liabilities			
Commodity contracts	**(72.1)**	(138.5)	(223.2)
Financial contracts	**(172.3)**	(260.2)	(140.3)
	(244.4)	(398.7)	(363.5)

Net unrealised losses on our derivative contract portfolio in the first six months of 2017 were £200 million, with £65 million recognised in the income statement and £135 million in the hedge reserve.

The change in fair value of our derivative portfolio in the period has been driven predominantly by changes in currency exchange rates.

We have a large portfolio of forward currency purchase contracts, which fixes the sterling cost of our future biomass fuel purchases denominated in foreign currencies. Given the size of the portfolio, its fair value is highly sensitive to changes in foreign currency exchange rates.

Fair value measurement

- **Commodity contracts fair value –** The fair value of open commodity contracts that do not qualify for the own use exemption is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts. The quoted market price used for financial assets held by the Group is the current bid price; the quoted price for financial liabilities is the current ask price.

Financial contracts:

- **Forward foreign currency exchange contracts fair value –** The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value –** The fair value of other financial contracts that do not qualify for the own use exemption, is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

The fair values of all derivative financial instruments are discounted to reflect the credit risk inherent within the instrument.

The fair values of commodity contracts and financial contracts are largely determined by comparison between forward market prices and the contract price; therefore, these contracts are categorised as Level 2 of the fair value hierarchy.

13. Other financial instruments

We hold a variety of other non-derivative financial instruments, including cash and cash equivalents, borrowings, payables and receivables arising from our operations.

Fair value

Cash and cash equivalents, short-term investments, trade and other receivables, and trade and other payables generally have short times to maturity. For this reason, their carrying values approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield bond and amounts drawn down against term loans. The financial liabilities have been measured at amortised cost. The terms of the instruments have been reviewed for embedded derivatives. The bond notes contain an early repayment option that meets the definition of an embedded derivative, but this has not been separated as it is deemed to be closely related.

At 30 June 2017, the fair value of the fixed and floating bond notes was £27 million in excess of the carrying value of £538 million (based on quoted market prices).

14. Hedge reserve

Changes in the fair value of our derivative contracts for purchases and sales of commodities and foreign currencies, to the extent that they qualify as effective cash flow hedges under accounting rules, are recognised in the hedge reserve, a component of shareholders' equity. The cumulative gains and losses unwind and are released to the income statement as the related contracts mature and delivery is taken of the associated commodity or currency.

The expected release profile from equity of post-tax hedging gains and losses is as follows:

	As at 30 June 2017 (Unaudited)			
	Within 1 year £m	**1–2 years £m**	**2-5 years £m**	**Total £m**
Commodity contracts	**(18.1)**	**(3.1)**	**-**	**(21.2)**
Financial contracts	**54.0**	**37.0**	**120.7**	**211.7**
	35.9	**33.9**	**120.7**	**190.5**

	As at 30 June 2016 (Unaudited)			
	Within 1 year £m	1–2 years £m	2-5 years £m	Total £m
Commodity contracts	5.5	(3.0)	(0.2)	2.3
Financial contracts	13.1	30.0	164.4	207.5
	18.6	27.0	164.2	209.8

	As at 31 December 2016 (Audited)			
	Within 1 year £m	1–2 years £m	2-5 years £m	Total £m
Commodity contracts	(12.8)	(0.6)	0.1	(13.3)
Financial contracts	42.8	69.0	206.9	318.7
	30.0	68.4	207.0	305.4

15. Borrowings

On 5 May 2017, the Group undertook a refinancing exercise, repaying its existing term debt. The new financing structure includes £550 million high yield publicly traded bond listed on the Luxembourg exchange. This bond included £350 million 4.25% fixed rate notes and £200 million floating rate notes of 4.00% above LIBOR.

The Group continues to benefit from a Revolving Credit Facility (RCF), which has now been reduced to £350 million and incorporates £35 million of fully drawn term debt. The facility and the bond notes mature in April 2022.

Reconciliation of borrowings

Borrowings at 31 December 2016 consisted principally of amounts drawn down against bank loans. The borrowings at 30 June 2017 reflect the new finance facilities, including the high yield publicly traded bond.

	Borrowings prior to deferred finance costs	Deferred finance costs	Net borrowings
	£m	£m	£m
Borrowings at 31 December 2016	329.0	(7.1)	321.9
Loans repaid	(493.2)	7.1	(486.1)
New loans drawn	750.0	(17.4)	732.6
Loan indexation	0.1	0.0	0.1
Amortisation of deferred finance costs	0.0	0.6	0.6
Borrowings at 30 June 2017	585.9	(16.8)	569.1

Split between:

Current borrowings	0.8
Non-current borrowings	568.3

16. Cash generated from operations

The table below reconciles our (loss)/profit for the period to the amount of physical cash we have generated from our operations (i.e. sourcing, generating and selling electricity and gas) by adjusting for any non-cash accounting items.

	Six months ended 30 June		Year ended 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
(Loss)/profit for the period	**(68.4)**	148.7	193.9
Adjustments for:			
Net interest charge/(credit)	**42.9**	(2.5)	6.4
Tax (credit)/charge (note 4)	**(14.3)**	35.5	3.2
Depreciation and amortisation	**89.6**	49.3	109.5
Losses on disposal	**-**	2.7	3.8
Unrealised losses/(gains) on derivative contracts	**64.7**	(163.4)	(176.8)
Defined benefit pension scheme charge	**3.7**	3.0	6.0
Non-cash charge for share-based payments	**3.9**	3.0	5.2
Close out of currency contracts	**(7.4)**	-	14.0
Operating cash flows before movement in working capital	**114.7**	76.3	165.2
Changes in working capital:			
Decrease/(increase) in inventories	**79.7**	1.3	(63.5)
Decrease in receivables	**120.5**	86.8	28.6
Increase in payables	**35.0**	109.5	73.7
Total decrease in working capital	**235.2**	197.6	38.8
Decrease/(increase) in carbon assets	**0.6**	11.8	11.1
(Increase)/decrease in ROC and LEC assets	**(108.2)**	(126.1)	12.5
Defined benefit pension scheme contributions	**(7.1)**	(6.9)	(14.5)
Cash generated from operations	**235.2**	152.7	213.1

17. Reconciliation of net debt

This note reconciles our net debt position in terms of changes in our cash on hand, short-term investments and borrowings.

	As at 30 June		As at 31 December
	2017 (Unaudited) £m	2016 (Unaudited) £m	2016 (Audited) £m
Net debt at 1 January	**(93.5)**	(186.6)	(186.6)
(Decrease)/increase in cash and cash equivalents	**(29.3)**	101.0	86.7
(Increase)/decrease in net borrowings	**(247.2)**	0.6	(1.5)
Effect of changes in foreign exchange rates	**(2.1)**	-	7.9
Net debt at period end	**(372.1)**	(85.0)	(93.5)

18. Contingent Liabilities

Contingent liabilities are potential future outflows of cash that are dependent on a future event that is outside of our control. The amount and timing of any payment is uncertain, cannot be measured reliably, or is considered to be unlikely.

Guaranteed Minimum Pension (GMP)

The UK Government has begun implementing legislation to equalise the GMP, resulting in an increase in the value of GMP for males. This would correspondingly increase the defined benefit pension obligation of the Group. At present, the methodology for implementing the equalisation is uncertain and thus the impact cannot be reliably measured. As a result, no allowance has been made for GMP equalisation in the calculation of the defined benefit obligation within these condensed consolidated financial statements.

Borrowings

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 30 June 2017 the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £46.1 million (H1 2016: £44.9 million).

19. Impact of standards issued but not yet applied by the entity

IFRS 9 – financial instruments

The Group expects to adopt IFRS 9 in line with the 1 January 2018 effective date.

The group does not expect the new requirements to have a significant impact on the classification or measurement of its financial assets. Further analysis is being performed to assess the likely quantum, if any, of change that may occur in the valuation of the Group's trade receivable balances as a result of new impairment requirements in respect of financial assets.

There will be no impact on the Group's accounting for financial liabilities.

New hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. It is anticipated that more of the Group's commodity contracts will qualify for hedge accounting under the new standard than under the existing standard. This may result in a greater proportion of unrealised gains and losses being recognised in the hedge reserve and an associated reduction in income statement volatility.

IFRS 9 also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and increase the extent of the group's disclosures about its financial instruments, particularly in 2018 when the new standard is adopted.

IFRS 15 – revenue from customer contracts

The Group's impact assessment for the adoption of IFRS 15 is ongoing. The Group expects to adopt IFRS 15 in line with the effective date of 1 January 2018.

Whilst further work is required to determine the impact on reported revenue, the Group will review and update its revenue recognition policies in light of the updated requirements.

Based on the initial findings of this process, a material change to the quantum and timing of profitability is considered unlikely. The key focus area is in the Retail businesses due to the types of customer contracts.

The new standard also introduces expanded disclosure requirements. These are expected to change the nature and extent of the group's disclosures about its revenue recognition, particularly in 2018 when the new standard is adopted.

IFRS 16 – leases

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of £29 million. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low-value leases.

The Group currently expects to adopt IFRS 16 in the period it becomes mandatory, which is 1 January 2019 subject to EU endorsement.

Independent review report to Drax Group plc

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 19. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" 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 it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

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

As disclosed on page 11, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Statutory Auditor
London, United Kingdom
18 July 2017

Glossary

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

Availability
Average percentage of time the units were available for generation.

Bark spread
The difference between the power price and the cost of biomass, net of renewable support.

Contracts for difference (CfD)
A mechanism to support investment in low-carbon electricity generation. The CfD works by stabilising revenues for generators at a fixed price level known as the “strike price”. Generators will receive revenue from selling their electricity into the market as usual. However, when the market reference price is below the strike price they will also receive a top-up payment from suppliers for the additional amount. Conversely, if the reference price is above the strike price, the generator must pay back the difference.

Dark green spread
The difference between the power price and the cost of coal and carbon.

EBITDA
EBITDA is defined as earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business.

Grid charges
Includes transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and distribution use of system charges (DUoS).

H1 2016
The six-month period ended 30 June 2016.

H2 2016
The six-month period ended 31 December 2016.

H1 2017
The six-month period ended 30 June 2017.

IFRS
International Financial Reporting Standards.

LECs
Levy Exemption Certificates. Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Lost time injuries
Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

Net debt
Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.

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

Power

The provision of electricity and/or gas

Renewable support
Term used to refer to any financial incentive in respect of renewable energy generation. At present this predominantly reflects the value ascribed to ROCs and CfD, which is accounted for as a deduction from fuel costs within costs of sales.

REGO
A Renewable Energy Guarantee of Origin (REGO) is certification provided as proof of energy being generated from renewable sources.

ROCs
A Renewables Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources. The Renewables Obligation is currently the main support scheme for renewable electricity projects in the UK.

Summer
The calendar months April to September.

Total recordable injury rate (TRIR)
The frequency rate is calculated on the following basis: (lost time injuries + worse than first aid injuries)/hours worked times 100,000.

Winter
The calendar months October to March.

Drax Group plc
Drax Power Station
Selby
North Yorkshire YO8 8PH
Telephone: +44 (0)1757 618381
Fax: +44 (0)1757 612192
www.drax.com

[1] Calculated using Ofgem's Solid and Gaseous Biomass Carbon Calculator

[2] Estimates based on own data and BEIS Energy Trends: renewables section 6 available to 31 March 2017
[3]http://www.nera.com/publications/archive/2016/NERA_Imperial_Feb_2016_Renewable_Subsidies_and_Whole_System_Costs_FINAL_160215.html
[4] National Grid's 'Future Energy Scenarios' July 2017