



HALF YEAR REPORT 2011

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PRINCIPAL PERFORMANCE INDICATORS

For the six months ended 30 June 2011:

Total revenue

£866 million

(2010: £781 million)

Gross profit

£281 million

(2010: £265 million)

EBITDA

£190 million

(2010: £184 million)

Underlying earnings

32 pence per share

(2010: 28 pence per share)

Net cash

£198 million

(2010: £71 million)

Load factor

80%

(2010: 77%)

Carbon dioxide emissions

768 tonnes per GWh

(2010: 792 tonnes per GWh)

Total recordable injury rate

0.09

(2010: 0.18)

Note: Comparatives all relate to the six month period ended 30 June 2010.

BUSINESS REVIEW

CHAIRMAN'S INTRODUCTION

We have seen improved profits for the first six months of the year, compared to the same period last year, which are a result of a better trading environment and some attractive forward sales made in previous years. We remain cautious in our outlook for the power market and recognise that for the rest of the year we will have less benefit from strong forward margins secured in prior years.

Our operational performance has continued to be good following the record-breaking performance of last year, and we have seen high output and availability supporting both our contracted position and our ability to take advantage of market opportunities. We have maintained our tight control on costs, which continues to support our earnings and assist in protecting our business in the current economic environment.

As a result of our overall performance during the first half of 2011, and in line with our dividend policy, I am able to confirm that in October shareholders will receive an interim ordinary dividend of 16.0 pence per share, equivalent to approximately £58 million.

It is always pleasing to report on progress made in reducing our carbon footprint, which is now well embedded in and central to our business strategy. With just three low pressure turbine modules to be replaced next year, we are now nearing the completion of the largest steam turbine modernisation programme in UK history, which brings with it a carbon dioxide ("CO₂") emissions saving of one million tonnes a year.

The key strand of our carbon abatement work focuses on biomass. We continue to believe that generating electricity from sustainable biomass has considerable potential and that it should have an important role as a low carbon, cost effective, reliable and flexible renewable technology in the future energy mix of the UK.

As reported at the time of our preliminary results, our plans to expand our biomass operations are wholly dependent on the regulatory framework and level of support, and during the year we have continued to work with the Government to advance the case for biomass. We will maintain our engagement with the Government throughout the remainder of the year as we look to secure an appropriate level of support.

Finally, my thanks go to all Group staff for their commitment to the business throughout the first six months of the year.



Charles Berry

Chairman

1 August 2011



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CHIEF EXECUTIVE'S STATEMENT



Introduction

We entered 2011 with strong forward sales, a significant proportion of which were executed on more attractive terms than could have been captured during the first six months of the year. Our contracted position combined with improvements in trading conditions and good operational and cost performance have led to increased profits for the first half of the year compared to the first half of 2010.

In April, we were delighted to reach an agreement with HM Revenue & Customs ("HMRC") on the long-standing and complex matter of the Group's Eurobond financing structure, which will result in the release of £180 million cash tax relief for the business over the coming years, a substantial proportion of which is already available to the business. The cash will form an integral part of the capital required for our biomass strategy, should the Government deliver an appropriate regulatory framework to incentivise further significant investment in electricity generation from biomass.

The refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012, was completed in July. Our term loan was repaid in full out of cash on hand and a new revolving credit facility, which can be used for letters of credit and working capital purposes, will mature at the end of April 2014. Subsequent to the refinancing, Standard & Poor's confirmed that the new facility is investment grade.

Our dialogue with the Government over the future support levels for biomass technologies and the market reform agenda has continued apace. Positive progress in both these areas is critical if we are to deliver value both to our shareholders and the UK as we transform from a reliable, flexible and cost effective high carbon generator to a reliable, flexible and cost effective low carbon generator.

In July, the Government published its Electricity Market Reform White Paper setting out key measures to transform the market and attract the investment necessary to secure a new generation of power sources. Alongside the White Paper, the Renewables Roadmap was published identifying eight technologies offering either the greatest potential to meet the 2020 renewables target in a cost effective and sustainable way, or great potential for the decades that follow. We were delighted to see biomass named as one of the leading contributors, very much in line with the potential we have long identified and advocated.

Strategy

Our vision for Drax is to be a bold, customer orientated power generation and retail business, driven by biomass innovation. We have two key strategic initiatives to enable us to achieve our vision, namely, our project to convert Drax Power Station into a predominantly biomass-fired generating asset, subject to securing the necessary regulatory support, and our programme for the expansion of our retail business, Haven Power Limited ("Haven Power").

Commodity markets

Since February, we have experienced some improvement in near-term and forward commodity market margins for coal-fired generators, driven largely by increasing gas prices. In the longer term we see conflicting tensions through the introduction of the carbon price support mechanism from April 2013, which is likely to erode our competitive position in the market. The dark green spreads (the difference between power price and the cost of coal and carbon) available to us in the traded markets are good in the near-term, but there remains little visibility beyond 2013.

Operations

We have enjoyed good operational performance at Drax Power Station during the first half of the year. Our safety statistics continue to be industry-leading, and the periods when we were unable to generate, referred to as forced or unplanned outages, are in line with our long-term target.

The single unit outage for 2011 was completed in very good time, and especially so given the complexity of some of the renewal work undertaken during the planned downtime. The low pressure and high pressure turbine modules of five of our six generating units have now been replaced and are operating as expected. With only three low pressure turbine modules to be replaced during the first of next year's two unit outages we are nearing completion of the project, which commenced in 2007. On completion, the improved overall efficiency of the power station will lead to a reduction in CO₂ emissions of one million tonnes a year.

Our biomass co-firing facility, albeit subject to the economic constraints of the current regulatory regime, is operating well, and during the first six months of 2011 we burnt over 600,000 tonnes of sustainable biomass. In addition to burning biomass, we made further progress, and continued to derive benefit, through burning alternative, economically advantageous fuels.

We are furthering our work on the options available to us for compliance with the more stringent emissions standards of the Industrial Emissions Directive from 2016. The fuel mix, and so the level of biomass co-firing, is a key factor in determining the optimal solution for compliance.

Downstream, I am pleased to report that our retail business, Haven Power, is meeting its growth expectations. The substantial IT systems project, which supports the growth strategy, is progressing to time and budget. Haven Power continues to provide us with a valuable, credit efficient alternative to trading through the wholesale market.

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CHIEF EXECUTIVE'S STATEMENT

Expanding our biomass operations

We announced at the time of our preliminary results that we stand ready to expand our biomass operations, should the Government deliver an appropriate regulatory framework to incentivise further significant investment in electricity generation from biomass. In preparation, we have continued our research and development work around increasing the level of biomass burnt at Drax Power Station.

The combustion trials are progressing well with a wide variety of sustainable biomass materials being tested at different throughputs and under varying operating conditions. Although the evaluation of these trials is ongoing, all the indications are that we will be able to co-fire significant volumes of biomass in our existing boilers and move towards our vision of becoming a generation business fuelled predominantly by biomass.

We have progressed, where possible, our work with Siemens Project Ventures on our dedicated biomass developments. However, we have been unable to make any significant advancement due to the lack of clarity surrounding the future level of support available for dedicated biomass plants.

Much progress has been made on biomass sourcing. All our biomass is procured against our own industry-leading, robust sustainability criteria, which includes greenhouse gas emission reduction requirements, and habitats and biodiversity protection, as well as socio-economic considerations in the source areas. A programme of independent audits ensures all our suppliers comply with our sustainability criteria.

We firmly believe that robust, mandatory sustainability criteria are vital to maintain and enhance public acceptance, and ensure that sustainable practices are implemented. Assessment of the full life cycle carbon footprint of biomass, that is, from field to furnace, is now well developed, especially in the UK where a mandatory life cycle standard comes into effect in 2013.

At Drax, we calculate the life cycle carbon footprint of all the biomass we procure and we are confident that our biomass fuel sourcing strategy will meet the mandatory standard. Our calculations show that the range of biomass materials we have burnt over the last few years has a far lower carbon footprint than those of typical gas-fired and coal-fired generating plant, being, at worst, half that of gas and a quarter that of coal.

Legislative and regulatory framework

Electricity Market Reform White Paper

The content of the White Paper had been well trailed ahead of its publication and, therefore, held little in the way of surprises. Unconventional in the sense that there are still many aspects subject to further consideration and consultation, the White Paper nevertheless confirmed the introduction of a Feed-in Tariff with Contracts for Difference ("FiT CfD") approach, as the replacement for the Renewables Obligation, to incentivise investment in new, low carbon generation. We believe the FiT CfD provides the lowest cost solution for the consumer and the necessary stability for investors. We are also pleased to see that a wider capacity mechanism is to be considered and look forward to engaging further with the Government on potential solutions.

Although we welcome the reform process, believing that reform of the electricity market is essential to creating the right environment to stimulate the huge investment necessary to provide adequate, affordable and sustainable supplies of electricity into the 2020s and beyond, we still harbour concerns over the introduction of a carbon price floor and an Emissions Performance Standard.

We continue to hold the view that the carbon price floor will not deliver all that is expected of it, and indeed that it may have unintended consequences. For example, to encourage investment any incentive mechanism must be “bankable”. That is not the case for the carbon price floor, which is to be set annually and is subject to discretion, both of which increase uncertainty for investors.

The introduction of an Emissions Performance Standard is, we believe, an unnecessary layer of additional legislation. Existing legislation already provides the framework for the agreed EU-wide emissions standards for electricity generation plant, and further we believe that the planning regime is more than capable of ensuring that only low emission power plants will be built in future.

Renewables Roadmap and Renewables Obligation support levels

In July, the Government published its Renewables Roadmap setting out its approach to unlocking the UK's renewables potential. We are encouraged by the Government's recognition that burning biomass in place of coal, in facilities like Drax, is one of the most cost effective means of producing renewable electricity. Further, we agree with the Government's estimate that electricity produced from sustainable biomass could provide a third or more of the required renewable power by 2020. Although very much in line with our aim to expand our biomass operations, the execution of our plans is dependent on there being an appropriate level of support under the current renewables incentive mechanism. To that end, we await the publication of the Government's consultation on its proposals for the support levels under the Renewables Obligation from April 2013.

Bribery Act 2010

Our Company has a commitment to conducting our business with honesty, integrity and in accordance with applicable laws and regulations, as well as in compliance with our internal Code of Business Ethics. Our Code ensures compliance with the recently enacted Bribery Act 2010 through the adoption of a zero tolerance policy towards bribery. We expect those we do business with to have equivalent standards in place in relation to their dealings with us.

Looking ahead

Dark green spreads have strengthened in the near-term markets, but there remains little visibility beyond 2013. In the second half of 2011, unlike the first half, we will not benefit from the same level of enhanced margins from forward sales made in prior years. Therefore, underlying profitability will be lower in 2011 compared to 2010, as recognised by the markets.

Our dialogue with the Government will continue over the remainder of this year with the same intensity as in the first half. The right regulatory framework and an appropriate level of support are essential for the transformation of Drax into a generation business fuelled predominantly by biomass. As a biomass-dominated business Drax will become a cost effective, low carbon electricity generator, whilst continuing to contribute to the UK's security of supply through maintaining both reliability and flexibility in electricity production. We firmly believe that through this transformation of Drax the UK will not only secure large volumes of cost effective renewable generation for the consumer, but will also increase significantly its ability to meet its 2020 climate change targets.



Dorothy Thompson
Chief Executive

1 August 2011

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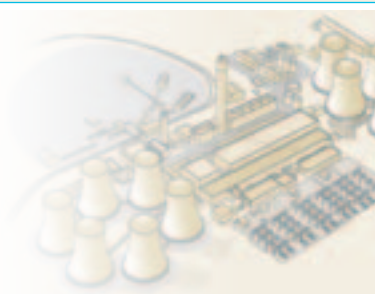
OUR KEY PRIORITIES

To achieve our overriding objective to maximise the value of the Drax business and our vision to be a bold, customer orientated power generation and retail business, driven by biomass innovation, our efforts are focused on six key priorities. This spread gives the highlights of the first half of 2011 against the relevant key priorities.

Key priority:

MAINTAIN OPERATIONAL EXCELLENCE

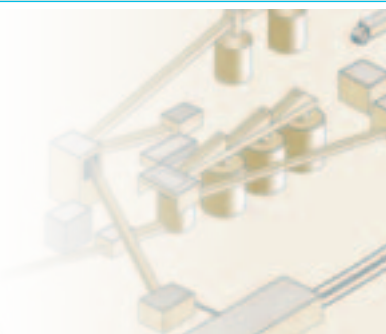
We have maintained our world class standards of safety and availability during the first half of 2011, which have helped to underpin our improved profitability for the period. Our forced outage rate is in line with our long-term target, and our availability at 86% and load factor at 80% demonstrate well the competitiveness of Drax Power Station in the market.



Key priority:

DEVELOP OUR BIOMASS OPERATIONS

We stand ready to expand our biomass operations, should the Government deliver an appropriate regulatory framework. In preparation we have successfully continued our R&D work and trials indicate that we will be able to co-fire significant volumes of biomass in our existing boilers. Much progress has been made on biomass sourcing, with all our biomass compliant with our industry-leading sustainability criteria.



Key priority:

GROW OUR RETAIL CUSTOMER BASE

The growth and development of our retail business, Haven Power, is on track and is supported by good progress in setting up the business processes and systems to handle an increasing volume of sales. During the first half of 2011, sales were double those for the same period in 2010. Now accounting for 13% of our forward contracted power sales, compared with 6% a year ago, Haven Power is proving its value as an alternative to trading through the wholesale market.



Key priority:

DELIVER CARBON ABATEMENT

The low pressure and high pressure turbine modules of five of our six generating units have now been upgraded and are meeting operational expectations. On completion next year, the project will save CO₂ emissions of one million tonnes a year. Our biomass co-firing facility is operating well and during the first six months of the year we burnt over 600,000 tonnes of sustainable biomass. When running at full capacity, a saving of 2.5 million tonnes of CO₂ will be possible each year.

**Key priority:**

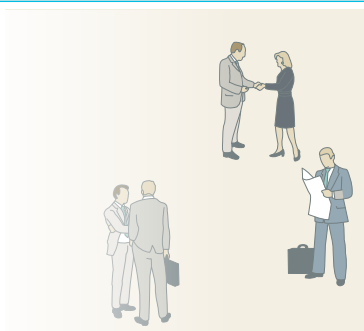
INFLUENCE THE REGULATORY FRAMEWORK

We have continued to work with the Government to advance the case for electricity generation from biomass. In its Renewables Roadmap, the Government identified biomass as one of eight key renewable technologies offering either the potential to meet the 2020 renewables target, or great potential for the decades that follow. We will maintain our dialogue with the Government during the critical second half of the year as we look to secure an appropriate level of support under the current review for renewables.

**Key priority:**

MAINTAIN AN OPTIMAL SUPPORTING CAPITAL STRUCTURE

We maintain a capital structure which supports our business model and is resilient in the market arrangements which govern the way we trade in commodity markets. Looking forward, if we secure an appropriate level of support, we may need to adapt our capital structure to support our biomass strategy. Successful resolution of the Eurobond tax position and the refinancing of our debt facilities during the first half of 2011 have strengthened our balance sheet, providing a strong foundation to begin that process.



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OPERATIONAL AND FINANCIAL PERFORMANCE

Results of business

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Total revenue	866.3	780.6
Fuel costs in respect of generation ⁽¹⁾	(446.0)	(381.8)
Cost of power purchases ⁽²⁾	(77.8)	(93.7)
Grid charges ⁽³⁾	(49.9)	(35.3)
Other retail costs ⁽⁴⁾	(12.1)	(4.5)
Total cost of sales	(585.8)	(515.3)
Gross profit	280.5	265.3
Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains/(losses) on derivative contracts ⁽⁵⁾	(90.6)	(81.2)
EBITDA⁽⁶⁾	189.9	184.1
Depreciation, amortisation and loss on disposal of property, plant and equipment	(28.5)	(25.3)
Unrealised gains/(losses) on derivative contracts	25.3	(12.4)
Operating profit	186.7	146.4
Net finance costs	(18.0)	(14.2)
Profit before tax	168.7	132.2
Tax:		
- Before exceptional items and impact of corporation tax rate change	(42.3)	(38.3)
- Impact of corporation tax rate change	7.5	-
- Exceptional items	197.9	-
Tax credit/(charge)	163.1	(38.3)
Profit for the period attributable to equity shareholders	331.8	93.9
Earnings per share	pence	pence
- Statutory basic and diluted	91	26
- Underlying basic and diluted ⁽⁷⁾	32	28

All results relate to continuing operations.

Notes:

- (1) Fuel costs in respect of generation predominantly comprise coal, biomass and CO₂ emissions allowances, together with petcoke and oil.
- (2) Cost of power purchases represents power purchased in the market.
- (3) Grid charges include transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").
- (4) Other retail costs include broker fees, Renewables Obligation Certificates ("ROCs") and metering.
- (5) Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains and losses on derivative contracts include salaries, maintenance costs and other administrative expenses.
- (6) EBITDA is defined as profit before interest, tax, depreciation, amortisation, gains and losses on disposal of property, plant and equipment and unrealised gains and losses on derivative contracts.
- (7) Calculated using underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items.



Introduction

EBITDA was £190 million for the six months ended 30 June 2011 compared to £184 million for the six months ended 30 June 2010. We benefited from our forward hedged position, and also from a general improvement in the trading environment. Improved profitability was supported by continued good operational performance, which we achieved whilst maintaining careful control over the underlying cost base of the business.

Our retail business, Haven Power, is meeting our growth expectations with sales of 1.4TWh in the six months to 30 June 2011 compared to 0.6TWh during the same period 2010.

In April, we were pleased to report that we had reached agreement with HMRC over the Eurobond tax position, resulting in cash tax relief of £180 million. This has enabled us to release £135 million of previously ring fenced cash to the business as at 30 June 2011, with a further £45 million to follow over the coming years as we utilise the remaining losses.

In July, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced by a £310 million revolving credit facility, maturing in April 2014, with the term loan repaid in full out of cash on hand.

The Board has resolved to pay an interim dividend for 2011 of 16.0 pence per share (£58 million) for the six months ended 30 June 2011, compared to 14.1 pence per share (£51 million) for the six months ended 30 June 2010.

This review provides further explanation and commentary in relation to our principal performance indicators and the results for the half year.

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OPERATIONAL AND FINANCIAL PERFORMANCE

Revenue

Total revenue for the six months ended 30 June 2011 was £866 million compared to £781 million in 2010. Total revenue in 2011 includes power sales of £733 million (2010: £712 million), retail sales of £115 million (2010: £49 million) and other income of £18 million (2010: £20 million).

Higher power sales reflect both an increase in the average achieved price of electricity to £55.3 per MWh in the six months ended 30 June 2011 compared to £50.6 per MWh in 2010 and an increase in net power sold from 12.7TWh in 2010 to 13.1TWh this year.

Our average achieved price of electricity reflects our contracted position, as well as higher power prices during the first six months of the year. The gas market continues to be the dominant factor in determining UK power prices, with increases in 2011 resulting from Japanese demand and uncertainty of supply caused by the unrest in North Africa and the Middle East.

Higher power prices have improved the margins available to coal-fired generators during the first six months of the year, which together with our good availability and efficiency advantage, resulted in an increase in net power sold.

Retail sales volumes have increased from 0.6TWh in the six months to 30 June 2010 to 1.4TWh in the six months to 30 June 2011. This largely reflects planned growth in Haven Power's industrial and commercial ("I&C") customer base from 0.1TWh at 30 June 2010 to 0.7TWh at 30 June 2011, along with continued growth in our sales to the small and medium enterprise ("SME") market.

In addition to power and retail sales, total revenue also includes income from the provision of ancillary services, the sale of by-products (ash and gypsum), and the sale of ROCs and LECs. In the six months ended 30 June 2011 these revenues were £18 million compared to £20 million in 2010.

Fuel costs (coal and other fuels)

Fuel costs in respect of generation during the six months ended 30 June 2011 were £446 million, compared to £382 million in 2010. The increase was due to a rise in the average cost of fuel per MWh and higher generation.

We burnt approximately 4.6 million tonnes of coal in both the six months ended 30 June 2011 and 30 June 2010. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities.

In 2011, we also burnt 0.6 million tonnes of biomass (2010: 0.3 million tonnes) and 0.3 million tonnes of pond fines (2010: 0.1 million tonnes). Pond fines are a coal mining residue, which trades at a significant discount to coal, and requires specific blending and handling techniques to burn in large volumes. We have developed these techniques at Drax over the last two years.

Coal comprised around 88% of total fuel burnt (by energy content) in the six months ended 30 June 2011 compared to 89% in 2010. Biomass comprised 8% of total fuel burnt in 2011 compared to 5% in 2010. The increase in biomass burn is the result of a full six months of operation of our co-firing facility, which was commissioned in the Summer of 2010.

Our average cost of fuel per MWh (excluding CO₂ emissions allowances) was £29.8 for the six months ended 30 June 2011, compared to £24.7 in 2010. The increase in average fuel prices was a function of the timing of purchases under domestic and international contracts in the forward and near-term markets, of commodity price movements and of fuel mix, with biomass typically at two to three times the cost of coal. Coal prices began to trend upwards towards the end of last year, when severe weather in a number of regions across the world resulted in supply constraints.

Fuel costs (CO₂ emissions allowances)

For Phase II of the EU ETS (2008-2012), Drax has an allocation of 9.5 million tonnes of CO₂ emissions allowances per annum under the UK NAP. We purchase CO₂ emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Our CO₂ emissions allowances requirement for the six months ended 30 June 2011, including those allocated under the UK NAP, was approximately 10.6 million tonnes compared to approximately 10.8 million tonnes in 2010, as a result of higher biomass burn and plant efficiency improvements.

The average price expensed for purchased CO₂ emissions allowances during the six months ended 30 June 2011 was £13.0 per tonne compared to £12.4 per tonne in 2010, reflecting the timing of purchases under fixed price contracts in the forward and near-term markets. Carbon prices rose slightly during the second half of 2010 and continued to trade in a fairly narrow range early in 2011, before moving upwards in the immediate aftermath of the Japanese earthquake. Subsequently, there has been a significant fall in the price of carbon since mid June, driven by a strong supply and low demand outlook.

Cost of power purchases

We purchase power in the market when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. In addition, Haven Power purchases power in the wholesale market for delivery to its retail customers. For the six months ended 30 June 2011, the net cost of purchased power was £78 million compared to £94 million incurred in 2010. Haven Power's cost of power purchases amounted to £69 million for the first half of 2011, compared to £30 million for the first half of 2010, including the cost of power purchased directly from Drax.

Grid charges

Grid charges for the six months ended 30 June 2011 were £50 million compared to £35 million in 2010. Grid charges include costs of £24 million incurred at Haven Power (2010: £10 million). The increase in grid charges at Haven Power is a function of the increased sales volume experienced in the six months to 30 June 2011, compared to last year.

As a result of these factors, gross profit for the six months ended 30 June 2011 was £281 million compared to £265 million in 2010.

Operating and administrative expenses

Other operating and administrative expenses before depreciation and amortisation were £91 million for the six months ended 30 June 2011 compared to £81 million in 2010. We continue to carefully control our cost base, with most of the increase (£8 million) related to investment in growth (biomass research and development and Haven Power). These costs include £9 million incurred at Haven Power, compared to £8 million in 2010.

EBITDA for the six months ended 30 June 2011 was therefore £190 million compared to £184 million in 2010.

Depreciation and amortisation was £29 million for the six months ended 30 June 2011 and £25 million for the six months ended 30 June 2010, with the increase arising following a full six months depreciation of the co-firing facility in 2011.

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OPERATIONAL AND FINANCIAL PERFORMANCE

Unrealised gains and losses on derivative contracts

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IFRSs. Where possible, we take the own use exemption for derivative contracts entered into and held for our own purchase, sale or usage requirements, including forward domestic coal contracts. As such, the net unrealised gains and losses recognised in the balance sheet principally relate to the mark-to-market positions on our forward contracts for power yet to be delivered, net of mark-to-market positions on financial coal and foreign exchange contracts. The following table describes the movements in unrealised gains and losses and where they are recorded in our financial statements.

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m	Year ended 31 December 2010 £m
Net unrealised (losses)/gains in the balance sheet at beginning of the period	(61.0)	234.1	234.1
Unrealised gains/(losses) recognised in the income statement	25.3	(12.4)	(60.5)
Fair value losses recognised in the hedge reserve (a component of equity)	(38.5)	(165.5)	(232.6)
Premium on options sold	(0.8)	(0.7)	(2.0)
Net unrealised (losses)/gains in the balance sheet at end of the period	(75.0)	55.5	(61.0)

During the first half of 2010, power prices increased such that by 30 June the difference between power that had been contracted but not yet delivered and the market price had narrowed considerably since 31 December 2009, reducing the unrealised gain in the balance sheet from £234 million to £56 million.

Power prices continued to increase in the second half of 2010, thereby reducing the unrealised gain further. In addition, following a period of coal price stability during the first half of 2010, prices increased significantly in the final months of the year, driving an increase in the unrealised losses on our financial coal contracts which expose us to floating prices. Together these factors resulted in an unrealised loss in the balance sheet of £61 million at 31 December 2010.

During 2011, power prices have risen further, eroding the difference between contract and market price, and driving an increase in the net unrealised loss in the balance sheet to £75 million at 30 June 2011.

The unrealised gains recognised in the income statement of £25 million for the six months ended 30 June 2011 and unrealised losses of £12 million for the six months ended 30 June 2010 arise from mark-to-market movements on our derivative contracts which do not qualify for hedge accounting; largely financial coal and foreign exchange contracts.

Mark-to-market movements on most of our derivative contracts considered to be effective accounting hedges, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark-to-market positions relating to power delivered during a reporting period, and the recording of mark-to-market positions on power yet to be delivered at the end of that period. The net unrealised loss recognised through the hedge reserve in the six months ended 30 June 2011 was £39 million, compared to £166 million at 30 June 2010. The net unrealised loss in 2010 arose largely as a result of a significant increase in power prices over the first six months of the year. Although power prices have risen during the first six months of 2011, the differential between contract and market price is far lower than in 2010, driving a smaller unrealised loss in 2011.

In considering mark-to-market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green spreads, not by the absolute price of electricity at any given date.

After allowing for unrealised gains and losses on derivative contracts, operating profit for the six months ended 30 June 2011 was £187 million compared to £146 million in 2010.

Interest

Net finance costs for the six months ended 30 June 2011 were £18 million compared to £14 million in 2010. The unwind of deferred finance costs in relation to our previous bank facilities has been accelerated to reflect their reduced revised term following the refinancing (see Capital resources and refinancing). This resulted in a one-time interest charge of £5 million in the six month period to 30 June 2011.

Tax

The tax charge before exceptional items for the six months ended 30 June 2011 was £35 million (an effective rate of 21%), compared to £38 million in 2010 (an effective rate of 29%). Tax for 2011 includes the impact of the reduction in the corporation tax rate from April 2011 on current and deferred tax liabilities.

Under the Group's previous financing structure, a subsidiary company was partially funded by a Eurobond payable to another Group company, which was unwound in 2008, potentially accelerating additional tax losses with a cash tax benefit of up to £220 million. The Group began utilising these potential losses in 2008, with cash saved notionally ring fenced, and no benefit recognised in the income statement prior to agreement with HMRC. By 30 June 2011 the Group had saved cash taxes of approximately £135 million (£117 million at 31 December 2010).

In April 2011, we reached agreement with HMRC over the Eurobond tax position which will result in the release of £180 million cash tax relief. This has enabled us to release the £135 million of cash saved to date to the business, and will enable us to release in the region of a further £45 million over the coming years as we utilise the remaining losses.

The exceptional tax credit of £198 million includes full recognition of the Eurobond settlement of £180 million and a further £18 million in relation to other legacy issues, being the release of historic tax provisions no longer required following settlement of these issues.

Profit for the period and earnings per share

As a result of the above factors, profit attributable to equity shareholders for the six months ended 30 June 2011 was £332 million, compared to £94 million in 2010, and basic and diluted earnings per share were 91 pence compared to 26 pence in 2010.

Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised gains and losses on derivative contracts and exceptional items) was £117 million for the six months ended 30 June 2011 compared to £103 million in 2010. Underlying basic and diluted earnings per share were 32 pence in 2011 compared to 28 pence in 2010.

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OPERATIONAL AND FINANCIAL PERFORMANCE

Other key factors affecting the business

Outages and plant utilisation levels

	Six months ended 30 June 2011	Six months ended 30 June 2010
Electrical output (net sales) (TWh)	13.1	12.7
Load factor (%)	79.7	77.4
Availability (%)	86.3	89.5
Winter forced outage rate (%)	3.7	2.4
Forced outage rate (%)	4.2	2.7
Planned outage rate (%)	9.8	8.1
Total outage rate ⁽¹⁾ (%)	13.7	10.5

Notes:

(1) The forced outage rate is expressed as a percentage of planned capacity available (that is, it includes a reduction for planned losses). The planned outage rate is expressed as a percentage of registered capacity. Accordingly, the aggregation of the forced outage rate and planned outage rate will not equate to the total outage rate.

The load factor for the six months ended 30 June 2011 was 80% compared to 77% in 2010, reflecting an increase in electrical output (net sales) to 13.1TWh in 2011 compared with 12.7TWh in 2010. We continue to demonstrate our leadership position in the coal-fired generation sector with plant availability of 86% for the six months ended 30 June 2011 compared to 90% in 2010. The plant despatch dynamics described in Revenue above drove our load factor to 80% for the period, which was significantly higher than the average for the rest of the fossil fuel fleet.

The forced outage rate and Winter forced outage rate for the six months ended 30 June 2011 were 4.2% and 3.7% respectively, compared to 2.7% and 2.4% in 2010. The 2011 forced outage rate is in line with our long-term target of 5%.

The planned outage rate achieved for the six months ended 30 June 2011 was 9.8% compared to 8.1% in 2010. Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. We had only one unit undergoing a major planned outage in both 2010 and 2011.

Health and safety

Our lost time injury rate was 0.05 for the six months ended 30 June 2011 compared to 0.09 in 2010. Our safety record is industry-leading, and we continue to work hard on our commitment to deliver a positive health and safety culture.

Liquidity and capital resources

Net cash including short-term investments was £198 million at 30 June 2011 compared to £204 million at 31 December 2010 and £71 million at 30 June 2010. Cash and short-term investments net of overdrafts were £300 million as at 30 June 2011 compared to £331 million at 31 December 2010 and £229 million at 30 June 2010. An analysis of cash flows is set out in the following table.

Analysis of cash flows

	Six months ended 30 June 2011 £m	Six months ended 30 June 2010 £m
Cash generated from operations	131.2	240.2
Income taxes paid	(42.2)	(28.8)
Other gains	0.8	-
Net interest paid	(8.1)	(11.3)
Net cash from operating activities	81.7	200.1
Cash flows from investing activities		
Purchases of property, plant and equipment	(13.7)	(38.6)
Short-term investments	(50.0)	25.0
Net cash used in investing activities	(63.7)	(13.6)
Cash flows from financing activities		
Equity dividends paid	(65.3)	(35.0)
Repayment of borrowings	(34.0)	(32.5)
Finance lease borrowings	-	0.1
Purchase of own shares held by employee trust	-	(0.1)
Net cash used in financing activities	(99.3)	(67.5)
Net (decrease)/increase in cash and cash equivalents	(81.3)	119.0

Cash generated from operations was £131 million in the six months ended 30 June 2011 compared to £240 million in 2010, reflecting an increase of £6 million in EBITDA as described above, and a working capital and intangible asset outflow of £58 million in 2011 compared to an inflow of £55 million in 2010.

The working capital and intangible asset outflow of £58 million in 2011 was driven by an increase in coal stocks of 0.4 million tonnes over the first six months, to meet forecast generation for the second half of the year, along with an increase in ROCs held for sale. The working capital inflow in 2010 reflected a reduction in coal stocks of 0.6 million tonnes, with high coal stocks at the start of 2010, and increased generation following unseasonably cold weather during the first quarter of last year.

Net income taxes paid were £42 million in the six months ended 30 June 2011 compared to £29 million in 2010. 2011 payments include settlement of the 2010 liability.

Net cash used in investing activities includes payments in respect of capital expenditure of £14 million in the six months ended 30 June 2011 and £39 million in 2010 (see Capital expenditure). 2011 includes an increase of £50 million in short-term investments compared to a repayment of £25 million in 2010, comprising cash deposits with a maturity of more than three months at inception.

Net cash used in financing activities was £99 million in the six months ended 30 June 2011 compared to £68 million in 2010. The 2011 amount includes equity dividends paid of £65 million and term loan repayments of £34 million. The 2010 amounts included equity dividends paid of £35 million and term loan repayments of £33 million (see Capital resources and refinancing).

The decrease in cash and cash equivalents was therefore £81 million in the six months ended 30 June 2011, compared to an increase of £119 million in 2010. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

Following scheduled debt repayments of £34 million during the period, senior secured debt was £101 million at 30 June 2011.

In July 2011, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced with a £310 million revolving credit facility which matures in April 2014, and which can be used for both letters of credit and working capital purposes. The margin over LIBOR on our new facility has reduced from 3.5% to 2%. The existing term loan was repaid in full out of cash on hand.

The unwind of deferred finance costs in relation to the previous banking facilities has been accelerated to reflect their reduced term resulting in a one-time interest charge of £5 million in the six months ended 30 June 2011.

Going concern

We acknowledge guidance on going concern for companies preparing financial statements. We have significant headroom in our new banking facilities, a recent history of cash generation and good visibility in medium-term forecasts, due to our progressive hedging strategy. The directors are therefore satisfied that the Group has sufficient resources to continue in operation for the foreseeable future, a period of not less than 12 months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Half year report.

Seasonality of borrowing

Our business is seasonal with higher electricity prices and despatch in the Winter period and lower despatch in the Summer months, when prices are lower and plant availability is affected by planned outages.

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. Our previous £100 million revolving credit facility was undrawn at 30 June 2011. It is envisaged that the new revolving credit facility will assist in managing the cash low points in the cycle when required.

16 BUSINESS REVIEW

OPERATIONAL AND FINANCIAL PERFORMANCE

Capital expenditure

Fixed asset additions were £16 million in the six months ended 30 June 2011 compared to £32 million in 2010. This includes expenditure of £6 million in 2011 (£7 million in 2010) on the turbine upgrade. On completing this project next year, we will have invested around £100 million to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. Using proven technology we expect to achieve an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40%. This will represent a 5% improvement on original baseload efficiency of around 38%. When complete, the project is expected to deliver annual savings of one million tonnes of CO₂ emissions allowances and approximately half a million tonnes of coal.

During this year's major planned outage we successfully completed the turbine module upgrades on one of our units. We are now delivering tangible benefits in terms of efficiency gains and carbon abatement, the latter amounting to a saving in CO₂ emissions of over 0.8 million tonnes per year. The final turbine upgrade will be undertaken in 2012. Expenditure remains in line with budget.

2010 expenditure included £14 million in relation to the biomass co-firing facility, completed in Summer 2010.

We continue to evaluate other investment opportunities which may result in additional capital expenditure. Further investment will be required prior to 2016 to meet the requirements of the Large Combustion Plant Directive and Industrial Emissions Directive. We are currently assessing the most appropriate technology to ensure compliance.

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 our 2010 Annual report and accounts (pages 28-29) the principal risks and uncertainties that could impact performance. These remain unchanged with the exception of the tax risk. Following agreement with HMRC over the Eurobond tax position (see Tax above), the risk of additional tax liabilities arising in relation to this structure has been eliminated. Our remaining principal risks and uncertainties are therefore:

- Commodity market risk
- Counterparty risk
- Ratings risk
- Environmental and health and safety risk
- Electricity wholesale market risk
- Biomass strategy risk
- Plant operating risk
- Regulatory and political risk

Related parties

We also included details of related party transactions in our 2010 Annual report and accounts (page 105). On 21 April 2011, Charles Berry resigned as the Chairman and as a director of Eaga Limited (formerly Eaga plc), upon the completion of the acquisition of that company by Carillion plc. During the period 1 January to 21 April 2011, services purchased from Eaga plc totalled £2 million.

Positions under contract for 2011, 2012 and 2013

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO₂ emissions allowances and fuel purchases. Our aim is to deliver market level 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 25 July 2011, the positions under contract for 2011, 2012 and 2013 were as set out below.

	2011	2012	2013
Power sales (TWh) comprising:	24.0	13.2	3.3
- Fixed price power sales (TWh) at an average achieved price (per MWh)	20.5 at £55.7	5.3 at £58.0	0.7 at £56.3
- Fixed margin and structured power sales (TWh)	3.5	7.9	2.6
CO ₂ emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	24.5	21.3	4.5
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	25.0	13.7	6.3

Fixed price power sales include approximately 4.4TWh supplied to Centrica in the period 1 January 2011 to 25 July 2011 under the five and a quarter year baseload contract which commenced on 1 October 2007 and the five year 300MW baseload contract which commenced on 1 October 2010.

Fixed margin power sales include approximately 3.5TWh in 2011, 7.9TWh in 2012 and 2.6TWh in 2013 in connection with the above contracts.

Under these contracts the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO₂ emissions allowances amounting in aggregate to approximately 7.2 million tonnes in each of 2011 and 2012 and approximately 2.4 million tonnes in 2013.

The contracts provide the Group with a series of fixed dark green spreads, with the spreads on the first contract having been agreed in the first quarter of 2006 and with those in the second contract having been agreed in October 2009.

Distributions

Distribution policy

The Board has previously committed to target a pay-out ratio of 50% of underlying earnings (being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts and exceptional items) in each year. For the half year, underlying earnings per share on this basis were 32 pence per share.

Dividends paid

On 21 February 2011, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 13 April 2011, to pay a final dividend for the year ended 31 December 2010 of 17.9 pence per share (£65 million). The final dividend was subsequently paid on 13 May 2011.

Dividends proposed

On 1 August 2011, the Board resolved to pay an interim dividend for the six months ended 30 June 2011 of 16.0 pence per share (£58 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 14 October 2011 and shares will be marked ex-interim dividend on 28 September 2011.

This Operational and financial performance review was approved by the Board on 1 August 2011.



Tony Quinlan
Finance Director
1 August 2011

18 **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

Chief Executive

1 August 2011



Tony Quinlan

Finance Director

1 August 2011

CONDENSED CONSOLIDATED INCOME STATEMENT

	Notes	Six months ended 30 June		Year ended 31 December
		2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Revenue		866.3	780.6	1,648.4
Fuel costs in respect of generation		(446.0)	(381.8)	(840.9)
Cost of power purchases		(77.8)	(93.7)	(165.8)
Grid charges		(49.9)	(35.3)	(82.2)
Other retail costs		(12.1)	(4.5)	(9.0)
Total cost of sales		(585.8)	(515.3)	(1,097.9)
Gross profit		280.5	265.3	550.5
Other operating and administrative expenses		(119.1)	(106.5)	(212.1)
Unrealised gains/(losses) on derivative contracts		25.3	(12.4)	(60.5)
Operating profit		186.7	146.4	277.9
Interest payable and similar charges		(19.3)	(14.9)	(25.2)
Interest receivable		1.3	0.7	2.2
Profit before tax		168.7	132.2	254.9
Tax:				
- Before exceptional items	5	(34.8)	(38.3)	(66.5)
- Exceptional items	5	197.9	-	-
		163.1	(38.3)	(66.5)
Profit for the period attributable to equity holders		331.8	93.9	188.4
Earnings per share				
		pence	pence	pence
- Basic and diluted	6	91	26	52

All results relate to continuing operations.

Underlying earnings and underlying earnings per share are set out in note 6.

20 CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Profit for the period	331.8	93.9	188.4
Actuarial gains/(losses) on defined benefit pension scheme	5.2	(3.8)	(6.2)
Deferred tax on actuarial (gains)/losses on defined benefit pension scheme	(1.4)	1.1	1.7
Fair value losses on cash flow hedges	(38.5)	(165.5)	(232.6)
Deferred tax before impact of corporation tax rate change on cash flow hedges	10.2	46.3	65.1
Impact of corporation tax rate change on deferred tax on cash flow hedges	0.8	-	0.6
Other comprehensive expense for the period	(23.7)	(121.9)	(171.4)
Total comprehensive income/(expense) for the period attributable to equity holders	308.1	(28.0)	17.0

CONDENSED CONSOLIDATED BALANCE SHEET

		As at 30 June	As at 31 December	
	Notes	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Assets				
Non-current assets				
Intangible assets - goodwill		10.7	10.7	10.7
Property, plant and equipment		1,171.8	1,184.3	1,184.2
Derivative financial instruments		11.7	50.1	25.8
		1,194.2	1,245.1	1,220.7
Current assets				
Inventories		154.7	152.4	116.6
Intangible assets - ROCs held for sale		60.8	27.8	33.1
Trade and other receivables		193.1	161.3	233.0
Derivative financial instruments		78.8	190.6	112.6
Short-term investments		145.0	30.0	95.0
Cash and cash equivalents		168.5	199.4	236.0
		800.9	761.5	826.3
Liabilities				
Current liabilities				
Trade and other payables		255.7	204.1	285.0
Current tax liabilities		30.8	170.4	189.7
Borrowings		105.3	62.0	61.7
Derivative financial instruments		164.9	177.1	197.9
		556.7	613.6	734.3
Net current assets		244.2	147.9	92.0
Non-current liabilities				
Borrowings		10.6	96.5	65.3
Derivative financial instruments		0.6	8.1	1.5
Provisions		6.7	6.2	6.4
Deferred tax liabilities		188.0	283.0	244.2
Retirement benefit obligations		30.0	35.9	37.3
		235.9	429.7	354.7
Net assets		1,202.5	963.3	958.0
Shareholders' equity				
Issued equity		42.1	42.1	42.1
Capital redemption reserve		1.5	1.5	1.5
Share premium		420.7	420.7	420.7
Merger reserve		710.8	710.8	710.8
Hedge reserve	9	32.0	107.2	59.5
Accumulated losses		(4.6)	(319.0)	(276.6)
Total shareholders' equity		1,202.5	963.3	958.0

22 CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Accumulated losses £m	Total £m
At 1 January 2010	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7
Profit for the year	-	-	-	-	-	188.4	188.4
Other comprehensive expense	-	-	-	-	(166.9)	(4.5)	(171.4)
Total comprehensive (expense)/ income for the year	-	-	-	-	(166.9)	183.9	17.0
Equity dividends paid	-	-	-	-	-	(86.5)	(86.5)
Movement in equity associated with share-based payments	-	-	-	-	-	2.8	2.8
At 31 December 2010	42.1	1.5	420.7	710.8	59.5	(276.6)	958.0
At 1 January 2010	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7
Profit for the period	-	-	-	-	-	93.9	93.9
Other comprehensive expense	-	-	-	-	(119.2)	(2.7)	(121.9)
Total comprehensive (expense)/ income for the period	-	-	-	-	(119.2)	91.2	(28.0)
Equity dividends paid	-	-	-	-	-	(35.0)	(35.0)
Movement in equity associated with share-based payments	-	-	-	-	-	1.7	1.7
Own shares held by employee trust	-	-	-	-	-	(0.1)	(0.1)
At 30 June 2010	42.1	1.5	420.7	710.8	107.2	(319.0)	963.3
At 1 January 2011	42.1	1.5	420.7	710.8	59.5	(276.6)	958.0
Profit for the period	-	-	-	-	-	331.8	331.8
Other comprehensive (expense)/income	-	-	-	-	(27.5)	3.8	(23.7)
Total comprehensive (expense)/ income for the period	-	-	-	-	(27.5)	335.6	308.1
Equity dividends paid	-	-	-	-	-	(65.3)	(65.3)
Movement in equity associated with share-based payments	-	-	-	-	-	1.7	1.7
At 30 June 2011	42.1	1.5	420.7	710.8	32.0	(4.6)	1,202.5

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	Notes	Six months ended 30 June		Year ended 31 December
		2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Cash generated from operations	10	131.2	240.2	484.7
Income taxes paid		(42.2)	(28.8)	(56.1)
Other gains		0.8	-	2.0
Interest paid		(10.5)	(12.6)	(23.0)
Interest received		2.4	1.3	3.5
Net cash from operating activities		81.7	200.1	411.1
Cash flows from investing activities				
Purchases of property, plant and equipment		(13.7)	(38.6)	(62.3)
Short-term investments	8	(50.0)	25.0	(40.0)
Net cash used in investing activities		(63.7)	(13.6)	(102.3)
Cash flows from financing activities				
Equity dividends paid	7	(65.3)	(35.0)	(86.5)
Repayment of borrowings	8	(34.0)	(32.5)	(65.2)
Other financing		-	0.1	(1.5)
Purchase of own shares held by employee trust		-	(0.1)	-
Net cash used in financing activities		(99.3)	(67.5)	(153.2)
Net (decrease)/increase in cash and cash equivalents	8	(81.3)	119.0	155.6
Cash and cash equivalents at beginning of the period		236.0	80.4	80.4
Cash and cash equivalents at end of the period		154.7	199.4	236.0

24 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. General information

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 generation and supply industry 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. Basis of preparation

The condensed consolidated financial statements have been prepared using accounting policies consistent with International Financial Reporting Standards (“IFRSs”) and in accordance with IAS 34 “Interim Financial Reporting”.

The information for the year ended 31 December 2010 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.

Management performed a review of the presentation of certain items in the income statement and balance sheet in advance of the 2010 year end. Management concluded that ROCs should be separately presented in the balance sheet. As Drax increases the amounts of biomass burnt at the power station, the value of ROCs in the balance sheet is likely to become more significant. Accordingly £27.8 million has been reclassified from “inventories” to “intangible assets – ROCs held for sale” in relation to the 30 June 2010 comparative.

Additionally, management felt that metering charges, broker fees and ROC costs incurred at Haven Power should be separately disclosed under “other retail costs” within the income statement in order to provide better information to users of the Annual report and accounts and Half year report, as the retail business continues to grow. Accordingly £3.9 million of costs included in the cost of power purchases and £0.6 million of costs included in other operating and administrative expenses have been reclassified to other retail costs in the six months ended 30 June 2010 comparative figures.

These are presentational changes only and have no net impact on operating profit or net assets for any of the financial periods disclosed.

The condensed consolidated financial statements were approved by the Board on 1 August 2011.

Adoption of new and revised accounting standards

In 2011, a number of new standards and interpretations have become effective as noted in the 2010 Annual report and accounts (page 79). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group. Since the Annual report and accounts was published the following significant new standards and interpretations, which have not been applied in these condensed consolidated financial statements, have been issued but are not yet effective:

- IFRS 10 “Consolidated financial statements” – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 11 “Joint arrangements” – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 12 “Disclosure of interests in other entities” – effective for accounting periods beginning on or after 1 January 2013.
- IFRS 13 “Fair value measurement” – effective for accounting periods beginning on or after 1 January 2013.

The adoption of these standards in future periods is not expected to have a material impact on the financial statements of the Group.

3. Significant accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group's Annual report and accounts for the year ended 31 December 2010.

4. Segmental reporting

Information reported to the Executive Committee and the Board for the purposes of assessing performance and making investment decisions is organised into two operating segments. The Group's operating segments under IFRS 8 are as follows:

- Generation - the generation of electricity at the Drax Power Station.
- Retail - the supply of electricity to retail customers in the small and medium enterprise and industrial and commercial markets.

As a result of the growth in the retail business, this segment has become more significant to the Group during the six months ended 30 June 2011, and therefore the results of this segment are separately disclosed from 1 January 2011, along with comparatives for the six months ended 30 June 2010, and year ended 31 December 2010.

The Executive Committee and the Board assess the performance of the operating segments based on EBITDA, with sales between segments being carried out at arm's length. Assets and working capital are monitored on a Group basis with no separate disclosure of asset by segment made in the management accounts and hence no separate asset disclosure is provided in this Half year report.

Segment revenues and results

The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2011:

	Six months ended 30 June 2011 (Unaudited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	751.5	114.8	-	866.3
Inter-segment sales	69.7	-	(69.7)	-
Total revenue	821.2	114.8	(69.7)	866.3
Result				
Segment EBITDA	190.4	(0.5)	-	189.9
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(28.5)
Unrealised gains on derivative contracts				25.3
Operating profit				186.7
Net finance costs				(18.0)
Profit before tax				168.7

26 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

4. Segmental reporting (continued)

The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2010:

	Six months ended 30 June 2010 (Unaudited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	731.6	49.0	-	780.6
Inter-segment sales	25.7	-	(25.7)	-
Total revenue	757.3	49.0	(25.7)	780.6
Result				
Segment EBITDA	183.5	0.6	-	184.1
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(25.3)
Unrealised losses on derivative contracts				(12.4)
Operating profit				146.4
Net finance costs				(14.2)
Profit before tax				132.2

The following is an analysis of the Group's results by reporting segment in the year ended 31 December 2010:

	Year ended 31 December 2010 (Unaudited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,524.1	124.3	-	1,648.4
Inter-segment sales	71.9	-	(71.9)	-
Total revenue	1,596.0	124.3	(71.9)	1,648.4
Result				
Segment EBITDA	392.1	(1.5)	-	390.6
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(52.2)
Unrealised losses on derivative contracts				(60.5)
Operating profit				277.9
Net finance costs				(23.0)
Profit before tax				254.9

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's latest Annual report and accounts. All revenue and results arise from operations within Great Britain therefore no separate geographical segments are reported. The revenue and results of both segments are subject to seasonality as detailed in the "Operational and financial performance review – Seasonality of borrowing" section.

Major customers

Total revenue for the six months ended 30 June 2011 includes amounts of £243.9 million, and £135.9 million, derived from two customers (2010: £145.0 million, £120.3 million and £74.3 million, derived from three customers), each representing 10% or more of the Group's revenue for the period.

5. Taxation

The income tax expense reflects the estimated effective tax rate on profit before taxation for the Group and the movement in the deferred tax balance in the period, so far as it relates to items recognised in the income statement.

Exceptional items

Under the Group's previous financing structure, Drax Holdings Limited (a subsidiary company) was partially funded by a Eurobond payable to another group company. This Eurobond debt structure was unwound in 2008, potentially accelerating additional tax losses with a cash tax benefit of up to £220 million. Because of the risks related to the unwind of the Eurobond structure, no benefit was recognised in the Group's financial statements prior to agreement with HMRC.

On 5 April 2011, we reached agreement with HMRC, resulting in the resolution of the Eurobond tax position and certain other smaller legacy tax matters. Accordingly, we have recognised an exceptional tax credit of £197.9 million in the income statement. This includes a current tax credit of £149.5 million, and a deferred tax credit of £48.4 million.

Changes in the rate of corporation tax

Following the announcement of the 2011 Budget, the Finance (No. 3) Bill 2010-11 (the "Bill") was presented to Parliament on 29 March 2011. The Bill proposed a further reduction in the rate of corporation tax from 27% to 26% from April 2011, which was passed by resolution with immediate statutory effect. In addition the Bill proposed further reductions in the rate of corporation tax from 26% to 23% by 2014-15 which had not been substantively enacted at the balance sheet date. Since the period end, only the reduction in the corporation tax rate to 25% from April 2012, has been enacted, which would have impacted the valuation of the Group's deferred tax assets and liabilities held at 30 June 2011 by £8 million, had it been enacted prior to the period end. It is currently expected that each future Finance Bill enacted will reduce the corporation tax rate by 1% until the rate of 23% is reached.

28 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. Taxation (continued)

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Tax (credit)/charge comprises:			
Current tax before exceptional items	32.9	41.4	88.5
Deferred tax before exceptional items:			
- Before impact of corporation tax rate change	9.4	(3.1)	(14.4)
- Impact of corporation tax rate change	(7.5)	-	(7.6)
Tax charge before exceptional items	34.8	38.3	66.5
Exceptional items:			
- Current tax	(149.5)	-	-
- Deferred tax	(48.4)	-	-
Exceptional items	(197.9)	-	-
Tax (credit)/charge	(163.1)	38.3	66.5

6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. In calculating diluted earnings per share the weighted average number of ordinary shares outstanding during the period is adjusted, when relevant, to take account of share options and contingently issuable shares in relation to the Group's share-based incentive plans. The underlying earnings per share has been calculated after excluding the after tax impact of marking-to-market derivative contracts which are not hedged, and exceptional items.

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

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	331.8	93.9	188.4
After tax impact of unrealised gains and losses on derivative contracts	(16.9)	9.0	44.6
Exceptional items (note 5)	(197.9)	-	-
Underlying earnings attributable to equity holders of the Company	117.0	102.9	233.0

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited)	2010 (Unaudited)	2010 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	364.9	364.9	364.9
Effect of dilutive potential ordinary shares under share plans	2.0	0.5	0.7
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	366.9	365.4	365.6
Earnings per share - basic and diluted (pence)	91	26	52
Underlying earnings per share - basic and diluted (pence)	32	28	64

7. Dividends

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (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 2010 of 17.9 pence per share paid 13 May 2011	65.3	-	-
Interim dividend for the year ended 31 December 2010 of 14.1 pence per share paid 15 October 2010	-	-	51.5
Final dividend for the year ended 31 December 2009 of 9.6 pence per share paid 14 May 2010	-	35.0	35.0
	65.3	35.0	86.5

On 1 August 2011, the Board resolved to pay an interim dividend for the six months ended 30 June 2011 of 16.0 pence per share (equivalent to approximately £58.4 million) on or before 14 October 2011. The interim dividend of 16.0 pence per share has not been included as a liability as at 30 June 2011.

30 NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Net cash

		As at 30 June	As at 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Net cash/(debt) at 1 January	204.0	(54.4)	(54.4)
(Decrease)/increase in cash and cash equivalents	(81.3)	119.0	155.6
Increase/(decrease) in short-term investments	50.0	(25.0)	40.0
Decrease in net borrowings	24.9	31.3	62.8
Net cash at period end	197.6	70.9	204.0

£33.8 million of the term loans were repaid on 30 June 2011. During the previous year, term loan repayments of £32.5 million were made on each of 30 June 2010 and 31 December 2010. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

Refinancing

On 28 July 2011, we completed the refinancing of our letter of credit, working capital and term loan facilities, which were due to mature in December 2012. These facilities were replaced with a £310 million revolving credit facility which matures in April 2014, which can be used for both letters of credit and working capital purposes. The margin over LIBOR on our new facility has reduced from 3.5% to 2%. The existing term loan was repaid in full out of cash in hand and we subsequently drew down £10 million against the new revolving credit facility.

The unwind of deferred finance costs in relation to the previous facility has been accelerated, to reflect their revised term, resulting in a one-time £5.2 million interest charge in the six month period to 30 June 2011.

9. Hedge reserve

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power), forward foreign exchange contracts and interest rate swaps. Amounts are recognised in the hedge reserve as the designated contracts are marked-to-market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered.

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

	As at 30 June 2011 (Unaudited)			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	22.2	5.7	2.8	30.7
Forward foreign currency exchange contracts	1.3	-	-	1.3
	23.5	5.7	2.8	32.0

	As at 30 June 2010 (Unaudited)			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	80.7	24.6	6.0	111.3
Forward foreign currency exchange contracts	(2.3)	(0.1)	(0.5)	(2.9)
Interest rate swaps	(1.2)	-	-	(1.2)
	77.2	24.5	5.5	107.2

	As at 31 December 2010 (Audited)			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	42.0	13.8	4.3	60.1
Forward foreign currency exchange contracts	(0.3)	(0.1)	(0.2)	(0.6)
	41.7	13.7	4.1	59.5

10. Cash generated from operations

	Six months ended 30 June		Year ended 31 December
	2011 (Unaudited) £m	2010 (Unaudited) £m	2010 (Audited) £m
Profit for the period	331.8	93.9	188.4
Adjustments for:			
Interest payable and similar charges	19.3	14.9	25.2
Interest receivable	(1.3)	(0.7)	(2.2)
Tax (credit)/charge (note 5)	(163.1)	38.3	66.5
Depreciation and loss on disposal of property, plant and equipment	28.5	25.3	52.2
Unrealised (gains)/losses on derivative contracts	(25.3)	12.4	60.5
Defined benefit pension scheme charge	3.0	2.8	5.6
Non-cash charge for share-based payments	1.7	1.7	2.8
Operating cash flows before movement in working capital	194.6	188.6	399.0
Changes in working capital:			
(Increase)/decrease in inventories	(38.1)	41.7	77.6
Decrease/(increase) in receivables	38.8	46.9	(25.4)
(Decrease)/increase in payables	(31.3)	(17.1)	62.5
Total (increase)/decrease in working capital	(30.6)	71.5	114.7
Increase in intangible assets - ROCs held for sale	(27.7)	(16.1)	(21.4)
Defined benefit pension scheme contributions	(5.1)	(3.8)	(7.6)
Cash generated from operations	131.2	240.2	484.7

32 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 2011 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and related notes 1 to 10. 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 Services Authority.

As disclosed in note 2, 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 2011 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 Services Authority.



Deloitte LLP

Chartered Accountants and Statutory Auditors

London, United Kingdom

1 August 2011

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.	Average achieved price Power revenues divided by volume of net sales (includes imbalance charges).
Average capture price Revenue derived from bilateral contracts divided by volume of net merchant sales.	Balancing Mechanism The sub-set of the market through which the System Operator can call upon additional generation/ consumption or reduce generation/ consumption, through market participants' bids and offers, in order to balance the system minute by minute.	Baseload Running 24 hours per day, seven days per week remaining permanently synchronised to the system.
Bilateral contracts Contracts with counterparties and power exchange trades.	Company Drax Group plc.	Dark green spread The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO ₂ emissions allowances).
Direct injection co-firing The process whereby biomass is fed directly (that is, avoiding the pulverising mills) to the burners situated in the boiler walls.	EBITDA Profit before interest, tax, depreciation and amortisation, gains/(losses) on disposal of property, plant and equipment and unrealised gains/(losses) on derivative contracts.	EU ETS The EU Emissions Trading Scheme is a mechanism introduced across the EU to reduce emissions of CO ₂ ; the scheme is capable of being extended to cover all greenhouse gas emissions.
Forced outage Any reduction in plant availability excluding planned outages.	Forced outage rate The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.	Frequency response service Services purchased by National Grid to maintain system frequency.
Grid charges Includes transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").	Group Drax Group plc and its subsidiaries.	IFRSs International Financial Reporting Standards.
LECs Levy Exemption Certificates. Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.	Load factor Net sent out generation as a percentage of maximum sales.	Lost time injury rate The frequency rate is calculated on the following basis: lost time injuries/hours worked x 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

34 GLOSSARY

Net Balancing Mechanism Net volumes attributable to accepted bids and offers in the Balancing Mechanism.	Net cash/(debt) Comprises cash and cash equivalents, short-term investments less overdrafts and borrowings net of deferred finance costs.	Net merchant sales Net volumes attributable to bilateral contracts and power exchange trades.
Net sales The aggregate of net merchant sales and net Balancing Mechanism.	Occupational health and safety assessment series (OHSAS) The OHSAS specification gives requirements for an occupational health and safety management system to enable an organisation to control occupational health and safety risks and improve its performance.	Planned outage A period during which scheduled maintenance is executed according to the plan set at the outset of the year.
Planned outage rate The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.	Pond fines Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.	Power exchange trades Power sales or purchases transacted on the APX UK power trading platform.
Power revenues The aggregate of bilateral contracts and Balancing Mechanism income/expense.	ROCs Renewables Obligation Certificates.	Summer The calendar months April to September.
Technical availability Total availability after planned and forced outages.	Through-the-mill co-firing The process whereby biomass passes first through the pulverising mills before going to the burners situated in the boiler walls.	Total recordable injury rate (TRIR) The frequency rate is calculated on the following basis: (lost time injuries + worst than first aid)/hours worked x 100,000.
UK NAP UK National Allocation Plan.	Underlying earnings per share Calculated as profit attributable to equity holders, adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts, and exceptional items, divided by the weighted average number of ordinary shares outstanding during the period.	Winter The calendar months October to March.

SHAREHOLDER INFORMATION

Registered office and trading address

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North Yorkshire YO8 8PH

Registration details

Registered in England and Wales,
Company number: 5562053

Enquiries

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By fax:

+44 (0)1757 612192

By e-mail:

enquiries@draxpower.com

Company website:

www.draxgroup.plc.uk

Company share registrars and transfer office

Shareholders who have a query regarding their shareholding should contact the Company's share registrar as follows:

By post:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex BN99 6DA

By telephone:

0871 384 2030 from within the UK (calls to this number cost 8 pence per minute from a BT landline, other providers' costs may vary), or +44 121 415 7047 from outside the UK.

Lines are open from 8.30am to 5.30pm,
Monday to Friday - excluding Bank Holidays.

When contacting the registrar it is advisable to have the shareholder reference to hand and to quote Drax Group plc, as well as the name and address in which the shares are held.

Beneficial owners of shares with "information rights"

Beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under Section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares and not to Equiniti Limited or the Company.

Key dates

At the date of the publication of this document, the following are the proposed key dates for the remainder of the financial calendar:

Ordinary shares marked ex-interim dividend	28 September
Record date for entitlement to the interim dividend	30 September
Payment of the interim dividend (16.0 pence per share)	14 October
Interim Management Statement	15 November
Financial year end	31 December

Other significant dates, or amendments to the dates above will be posted on the Company's website as and when they become available.

Financial reports

Copies of all financial reports we publish are available from the date of publication on our website. Printed copies of reports can be requested by writing to the Company Secretary at the registered office, by clicking on "Contact Us" on our website, or direct by e-mail as detailed opposite.



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