

Half year report 2012



Contents

ifc Principal performance indicators

01 Chairman's introduction

02 Maximising the value of the Drax business

04 Chief Executive's statement

08 Our key priorities

10 Operational and financial performance

20 Directors' responsibility statement

21 Condensed consolidated income statement

22 Condensed consolidated statement of comprehensive income

23 Condensed consolidated balance sheet

24 Condensed consolidated statement of changes in equity

25 Condensed consolidated cash flow statement

26 Notes to the condensed consolidated financial statements

33 Independent review report to Drax Group plc

34 Glossary

36 Shareholder information

Principal performance indicators

For the six months ended 30 June 2012:

Total revenue

£868 million

(2011: £866 million)

Gross profit

£254 million

(2011: £281 million)

EBITDA

£154 million

(2011: £190 million)

Underlying earnings

29 pence per share

(2011: 32 pence per share)

Net cash

£233 million

(2011: £198 million)

Load factor

82%

(2011: 80%)

Carbon dioxide emissions

766 tonnes per GWh

(2011: 768 tonnes per GWh)

Total recordable injury rate

0.13

(2011: 0.09)

Note: Comparatives all relate to the six month period ended 30 June 2011.

Chairman's introduction

I am pleased to report that the business performed well in the first half of the year. With a strong operating performance we delivered first half profits in line with expectations, after additional domestic coal and biomass fuel cost pressures.

As a result of our overall performance during the first half of 2012, and in line with our dividend policy, shareholders will receive an interim ordinary dividend of 14.4 pence per share in October, equivalent to approximately £53 million.

In June, we completed our £100 million, five year steam turbine modernisation programme. We replaced the final three low pressure modules during the first of our two major planned unit outages in 2012. It is the largest steam turbine modernisation programme in UK history and is a key component of our carbon abatement strategy. The whole programme has been delivered on time and to budget. This achievement is a real testament to the diligence, expertise and teamwork of our engineers.

Finally, I am delighted to report that we now have the green light to turn our stated ambition to become a predominantly biomass-fuelled generator into reality. The Government's decision to award an appropriate level of support for converting individual generating units to run fully on biomass, combined with the excellent technical progress we have made in proving the feasibility of unit conversion at Drax, means that we can now put our plans into action.

We have long believed that generating electricity from sustainable biomass has great potential and that it should have an important role as a low carbon, cost-effective and reliable renewable technology in the future energy mix of the UK. We now look forward to realising that potential.

With a pleasing result for the first half of the year, I should like to conclude by offering my sincere thanks to all Group staff for their continued commitment to the business.



Charles Berry
Chairman
30 July 2012



Maximising the value of the Drax business

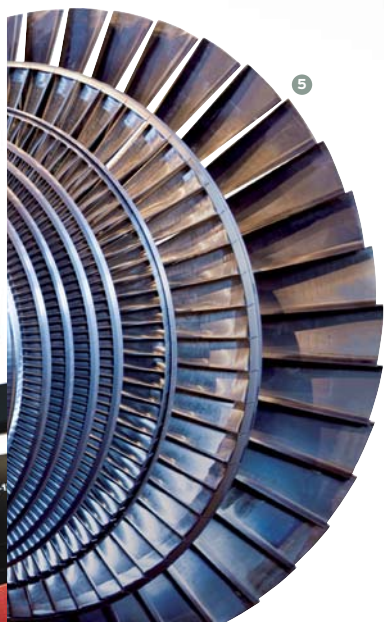
Our business model

Our overriding objective is to maximise the value of the Drax business whilst increasing our electricity generation from biomass, and so reducing our carbon footprint.

Our profitability is determined by both the difference between the price at which we sell our power and the cost of coal and carbon, known as the “dark green spread”, and increasingly by the “bark spread”, which is the difference between power price and renewable support plus the cost of biomass.

From this starting point there are several steps in the Drax value chain, with each one adding incremental value and ultimately maximising the value of our business and delivering our gross margin.





5

1 Fuel

We now make use of a range of fuels, including coal, biomass and others which are economically advantageous.

2 Trading

Through keeping a constant eye on the commodity markets within which we operate we are able to optimise the commercial despatch of our power.

3 Retail

Our retail business is focused on providing businesses of all sizes with cost-effective, tailored electricity supply backed by dedicated customer support.

4 Generation

Drax Power Station is the largest, cleanest and most efficient coal-fired power station in the UK. Over time we plan to transform Drax into a predominantly biomass-fuelled generator.

5 Environment

We work towards reducing our impact on the environment with a policy of regarding compliance with legislation as a minimum level of achievement.



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Chief Executive's statement

Introduction

Reporting on recent events first, on 25 July the Government published its decisions on the future support levels for renewable technologies. The support available for burning sustainable biomass in place of coal in existing power stations favours full conversion of individual generating units rather than co-firing, with the award of 1ROC/MWh for converted units as opposed to lower, but graduated, support for varying degrees of co-firing.

We continue to make very good progress with our biomass research and development work. During recent combustion trials we successfully operated a single unit on a fully converted basis for a sustained period. We have also been very encouraged by our engineering optimisation work, which gives us the full confidence that we can deliver reliable and flexible renewable power through converted units at attractive rates of efficiency and output.

As a result of the Government's conclusions on support levels, and our excellent technical progress, we can now move forward with our plan to become a predominantly biomass-fuelled generator. We expect to convert progressively three of our six generating units to biomass within the next five years, the first in the second quarter of 2013. We have secured the rights to 2 million tonnes of biomass for delivery in the 2013/14 Renewables Obligation compliance period to complement this unit conversion.

In February, we outlined our strategic capital investment plan to deliver the transformation of the business. Our strong balance sheet, with net cash of £233 million, continues to provide a good foundation for our funding requirements. I am also very pleased to report that, in July, we took the first steps towards funding the biomass transformation project when we secured the commitment to a new £100 million term debt facility with the M&G UK Companies Financing Fund.



Our operational performance has continued to be good during the first half of the year, and we have achieved high availability and output. This has supported both our contracted position and our ability to take advantage of market opportunities. The reduction in underlying profits in the first half of 2012, compared to the same period last year, reflects contracts placed in 2011, when margins available to coal-fired generators were weaker.

Commodity market conditions for coal-fired generators improved in the first six months of this year. In response we have more than doubled our forward sales for 2013, taking advantage of the improved margins. At the start of the year we had already secured a hedge for over 85% of 2012 production, providing us with protection against adverse commodity price movements. We are now virtually fully hedged for 2012 and well advanced for 2013.

Commodity markets

In the first half of the year we have seen significantly lower international coal prices, driven by excess supply. As a result dark green spreads, the difference between the price of power and the cost of coal and carbon, have been good for coal-fired generators. However, it should be noted that a combination of high gas and oil prices and low international coal prices has resulted in significant financial challenges for the UK's domestic coal producers, and we remain cautious in our outlook for domestic coal deliveries and prices.

As a consequence of lower power prices, bark spreads, the difference between power price and renewable support under current regulations and the cost of biomass, have weakened this year, particularly in the second quarter. Throughout the first half of the year, most traded biomass commanded lower margins than coal.

Operating performance

We have enjoyed continued good operational performance at Drax Power Station during the first half of the year. Our load factor was again high compared to other thermal plants. This was driven by our high efficiency, continued use of economically advantageous fuels and the quality and competitiveness of the system support services we are able to offer the National Grid.

Industry-leading safety statistics alongside considerable project activity and outage work continue to demonstrate the emphasis we place on safety. The first of our two major planned unit outages for 2012 was completed on time and to budget. The final stage of our turbine upgrade, which commenced in 2007, has now been completed. The new low pressure and high pressure turbine modules of all of our six generating units are operating as expected, and the improved overall efficiency of the power station will now deliver a reduction in carbon dioxide ("CO₂") emissions of 1 million tonnes a year.

Retail performance

Downstream, our retail business, Haven Power Limited ("Haven Power") continues to provide us with a valuable, credit efficient alternative to trading through the wholesale market. We have seen good growth so far this year in retail sales, although competition in many key segments of the business market has increased and as such margins are under pressure. Nevertheless, we remain confident in our ability to continue to grow direct power sales to business customers through Haven Power, which remains the key priority for the business. We now expect Haven Power to incur a modest loss up to 2015, and we will continue to invest to grow our retail sales base.

Chief Executive's statement

Biomass procurement

In addition to securing the rights to 2 million tonnes of good quality biomass fuel for delivery in the 2013/14 Renewables Obligation compliance period, we are making further progress on fuel supply agreements beyond 2013, including in strategic partnerships for forestry sources. Our momentum in this area will increase in the light of the Government's decisions on support levels.

We continue to make good headway in developing vital areas of the biomass fuel supply chain, namely port, shipping and rail arrangements, where we have progressed key agreements. Our evaluation of opportunities for direct investment in biomass pellet plants has identified potential projects with attractive returns. Given the lead times involved with such construction projects there were certain preparatory steps that needed to be taken as we planned ahead for our biomass fuel requirements. To that end we have submitted our first planning and permit applications, and expect to be in a position to make our first investment decisions towards the end of 2012.

The work we are doing on sustainability criteria for the biomass we procure continues to be industry-leading. We calculate the life cycle carbon footprint of all the biomass we buy and we are confident that our biomass fuel sourcing strategy will meet the UK mandatory standard which comes into effect in April 2013.

Legislative and regulatory framework

Draft Energy Bill

The draft Energy Bill, published in May, will implement the Government's chosen Electricity Market Reform mechanisms. The mechanisms aim to minimise the additional costs to end consumers of providing affordable, sustainable and secure electricity supplies, whilst providing pragmatic solutions to investor concerns surrounding the securing of project finance for low carbon investments.

Drax supports the introduction of Feed-in Tariffs with Contracts for Difference to replace the Renewables Obligation and a broad market-based capacity mechanism. However, there are some areas of detail which we believe need to be addressed to ensure that the aims of the reform package are fully delivered. We will continue our working level engagement with the Government on these matters with a view to arriving at effective and efficient arrangements.

Industrial Emissions Directive

Our work on the assessment of the options available to us for compliance with the more stringent emissions standards of the Industrial Emissions Directive from 2016 is well advanced. The fuel mix and flexibility of the power plant are key factors in determining the optimal solution for compliance.

Carbon Capture and Storage

Together, Alstom UK Limited, Drax and BOC (a member of The Linde Group) have formed a consortium in support of the White Rose Carbon Capture and Storage ("CCS") Project, a proposed 426MW oxyfuel CCS demonstration project based at the Drax Power Station site. At the beginning of July the consortium, in conjunction with National Grid Carbon Limited, submitted a bidder proposal for funds through the UK CCS Commercialisation Programme, which was launched in April. Last year, the project submitted an application for funding under the European NER 300 programme.

The project will be dependent on successful outcomes both from the UK and European funding processes as well as the proposed Electricity Market Reform mechanisms to incentivise low carbon technologies.

Looking ahead

Near-term dark green spreads have strengthened this year, but there remains little visibility beyond 2013 in the commodity markets in which we trade. Under Phase III (2013-2020) of the EU Emissions Trading System we will not receive an allocation of CO₂ emissions allowances. We will also face the increased cost of the carbon price support mechanism from April 2013. Both of these influences are reflected in market forecasts.

Delivering leading operating and cost performance will continue to be a key focus of our efforts.

Finally, we are delighted that recent confirmation of the new support levels for biomass provides the clarity we need to move forward with our plans to transform the business. We expect to convert our first unit in the second quarter of 2013 and a second unit in the following year. We will continue to work with the Government and the industry's regulator, Ofgem, on the design of practical and efficient regulations for the implementation of the Government's decisions.

A handwritten signature in black ink, consisting of a stylized 'D' followed by a horizontal line and a vertical line, and a large 'T' followed by a horizontal line.

Dorothy Thompson

Chief Executive

30 July 2012

Our key priorities

To achieve our vision and overriding objective to maximise the value of the Drax business, our efforts are focused on six key priorities.



Maintain operational excellence

“We work hard to maintain the reliability, availability and flexibility of the power station so that we can make a vital contribution to the nation’s security of supply.”



Grow our retail customer base

“We have seen good growth so far this year in our retail sales and we remain confident in our ability to grow this segment.”



Progress our biomass strategy

“As a result of our biomass research and development we are fully confident in our ability to transform Drax into a predominantly biomass-fuelled power station.”



Maximise profitability from our coal-fired generation capacity

"In response to improved commodity market conditions we have doubled our forward sales for 2013."



Maintain an optimal supporting capital structure

"Our strong balance sheet, with net cash of £233 million, continues to provide a good foundation for our funding requirements."



Deliver excellent people leadership across our operations

"Our people are a key resource and we consider it a priority to deliver excellent people leadership across our operations."

Operational and financial performance

Results of business

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Total revenue	867.9	866.3
Fuel costs in respect of generation ⁽¹⁾	(455.6)	(446.0)
Cost of power purchases ⁽²⁾	(57.8)	(77.8)
Grid charges ⁽³⁾	(81.1)	(49.9)
Other retail costs ⁽⁴⁾	(19.1)	(12.1)
Total cost of sales	(613.6)	(585.8)
Gross profit	254.3	280.5
Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains/(losses) on derivative contracts ⁽⁵⁾	(100.5)	(90.6)
EBITDA⁽⁶⁾	153.8	189.9
Depreciation, amortisation and loss on disposal of property, plant and equipment	(28.2)	(28.5)
Unrealised gains on derivative contracts	21.0	25.3
Operating profit	146.6	186.7
Net finance costs	(5.4)	(18.0)
Profit before tax	141.2	168.7
Tax:		
- Before exceptional items and impact of corporation tax rate change	(27.9)	(42.3)
- Impact of corporation tax rate change	7.6	7.5
- Exceptional items	-	197.9
Tax (charge)/credit	(20.3)	163.1
Profit for the period attributable to equity shareholders	120.9	331.8
Earnings per share	pence	pence
- Statutory basic and diluted	33	91
- Underlying basic and diluted ⁽⁷⁾	29	32

All results relate to continuing operations.

Notes:

- Fuel costs in respect of generation predominantly comprise coal, biomass and carbon dioxide ("CO₂") emissions allowances, together with petcoke and oil.
- Cost of power purchases represents power purchased in the market.
- Grid charges include transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").
- Other retail costs include broker fees, Renewables Obligation Certificates ("ROCs"), metering and Levy Exemption Certificates ("LECs").
- Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains and losses on derivative contracts include salaries, maintenance costs and other administrative expenses.
- 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.
- 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 £154 million for the six months ended 30 June 2012 compared to £190 million for the six months ended 30 June 2011. Our results for the first half of 2012 were supported by continued strong operational performance, reflected in our high availability and load factor. Our reported profits are in line with market expectations and include approximately £15 million more in biomass research and development ("R&D") costs for the first half than we originally envisaged. As described in the Chief Executive's statement, these biomass trials have been invaluable, with the results confirming that we can fully convert Drax units to burn biomass, and we expect to incur an additional £5 million for further trials in the second half.

The reduction in profitability compared to last year reflects the timing of our forward sales, with higher margins captured on power sales delivered in the first half of 2011.

Looking forward, we have taken advantage of improved dark green spreads this year, and doubled our forward sales for 2013 at good margins.

The strategic objective for Haven Power Limited ("Haven Power"), our retail business, is to deliver a credit efficient route to market for our power, and as such sales growth remains its key business priority. Haven Power has continued to deliver good volume growth, with sales of 2.5TWh in the six months to 30 June 2012 compared to 1.4TWh during the same period in 2011. As expected, Haven Power recorded a small loss in the first half.

Our balance sheet remains strong, with £233 million net cash at 30 June. In July, we took the first steps towards funding our biomass plans when we secured the commitment to a new £100 million term loan facility with the M&G UK Companies Financing Fund. This facility will form an important component of the funding solution for our plans to transform Drax into a predominantly biomass-fuelled generator.



Operational and financial performance

The Board has resolved to pay an interim dividend for 2012 of 14.4 pence per share (£53 million) for the six months ended 30 June 2012, compared to 16.0 pence per share (£58 million) for the six months ended 30 June 2011.

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

Generation results

Revenue

Total generation revenue for the six months ended 30 June 2012 was £794 million compared to £821 million in 2011. Total generation revenue in 2012 includes power sales of £766 million (2011: £802 million), ROC and LEC sales of £17 million (2011: £7 million), ancillary services income of £6 million (2011: £8 million) and other income of £5 million (2011: £4 million).

Net power sold increased to 13.6TWh in the six months ended 30 June 2012, compared to 13.1TWh in 2011, but at a lower average achieved price of electricity of £52.0 per MWh this year, compared £55.3 per MWh in 2011, resulting in the overall reduction in power sales.

Our average achieved price of electricity reflects our contracted position at the start of the year, as well as power prices during the first six months of the year. 2011 benefited from earlier forward sales captured at high margins, as well as higher power prices in the first half of last year that were driven up in the wake of the Fukushima disaster.

Margins available to coal-fired generators have improved so far this year, largely as a result of lower international coal prices. Our high availability and superior efficiency in comparison to other coal-fired generators has allowed Drax to take advantage of the good margins available, resulting in an increase in net power sold.

ROC and LEC sales have increased from £7 million in the six months to 30 June 2011 to £17 million in 2012, including sales to Haven Power of £6 million, driven by the timing of our contracting for ROC sales.

Generation revenue also includes income from the provision of ancillary services and the sale of by-products (ash and gypsum). In the six months ended 30 June 2012 these revenues were £11 million compared to £12 million in 2011.

Fuel costs (coal and other fuels)

Fuel costs in respect of generation were £456 million during the six months ended 30 June 2012 (2011: £446 million) with approximately 4.6 million tonnes of coal burnt in both periods. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities.

In 2012, we also burnt 0.5 million tonnes of biomass (2011: 0.6 million tonnes) and 0.4 million tonnes of pond fines (2011: 0.3 million tonnes). Pond fines are a coal mining residue, which trades at a significant discount to coal, requiring specific blending and handling techniques to burn in large volumes.

Coal comprised around 87% of total fuel burnt (by energy content) in the six months ended 30 June 2012 compared to 88% in 2011. Biomass comprised 7% of total fuel burnt in 2012 compared to 8% in 2011.

The vast majority of this year's biomass burn (0.4 million tonnes) related to our R&D trial work. Very little commercial biomass was burnt during the six months to 30 June 2012, as the margins remain weak at current support levels. Fuel purchased to support these critical trials has resulted in the Group incurring approximately £15 million more in R&D costs for the first half of 2012 than originally envisaged, with the fuel burnt at a loss relative to the equivalent cost of coal and the current support level of 0.5ROC/MWh. As noted earlier, we expect to incur an additional £5 million for further trials in the second half.

Our average cost of fuel per MWh (excluding CO₂ emissions allowances) was £30.7 for the six months ended 30 June 2012, compared to £29.8 in 2011. 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.

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 2012, including those allocated under the UK NAP, was approximately 11.2 million tonnes compared to approximately 10.6 million tonnes in 2011, as a result of higher generation levels.

The average price expended for purchased CO₂ emissions allowances during the six months ended 30 June 2012 was £5.9 per tonne compared to £13.0 per tonne in 2011, reflecting the timing of purchases under fixed price contracts in the forward and near-term markets. Carbon prices fell significantly during 2011, driven by anticipated over supply. During the first six months of 2012 prices have remained low, with any Phase II surplus bankable into Phase III pricing remains largely driven by political and macroeconomic factors, such as the renewable generation build rate and the pace of economic recovery.

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. For the six months ended 30 June 2012, the net cost of purchased power for the generation business was £58 million compared to £78 million incurred in 2011.

Grid charges

Generation grid charges for the six months ended 30 June 2012 were £32 million compared to £26 million in 2011. The increase is a result of higher generation levels and an increase in the rate charged by National Grid Company to reflect the impact of increased intermittent generation on system balancing costs.

As a result of these factors, generation gross profit for the six months ended 30 June 2012 was £248 million compared to £272 million in 2011.

Operating and administrative expenses

Generation other operating and administrative expenses before depreciation and amortisation were £91 million for the six months ended 30 June 2012 compared to £82 million in 2011, with the increase including planned spend on our biomass R&D work. We continue to carefully control our cost base, with our full year Group operating cost guidance (including retail operating costs) unchanged at £205 million.

Generation EBITDA for the six months ended 30 June 2012 was therefore £157 million compared to £190 million in 2011.

Retail results**Revenue**

Retail sales volumes have increased from 1.4TWh in the six months ended 30 June 2011 to 2.5TWh in the six months ended 30 June 2012. This reflects planned growth in Haven Power's industrial and commercial ("I&C") customer base from 0.7TWh at 30 June 2011 to 1.5TWh at 30 June 2012, along with growth in our sales to the small and medium enterprise ("SME") market. As a result, retail sales revenue increased to £219 million for the six months to 30 June 2012, compared to £115 million in 2011.

Cost of power purchases

Retail cost of power purchases for the six months ended 30 June 2012 were £139 million compared to £69 million incurred in 2011, reflecting the rise in sales volume.

Grid charges

There have been substantial increases in the rates charged by distribution network operators and National Grid Company during 2012. Combined with the higher retail volumes, this has resulted in a rise in grid charges for the retail business to £49 million in the six months to 30 June 2012, from £24 million in 2011.

Operational and financial performance

Other retail cost of sales

Other retail costs include broker fees, ROCs, LECs, metering and Feed-in Tariff ("FiT") costs and were £25 million in the six months ended 30 June 2012, compared to £13 million in 2011. In addition to higher volumes, costs have increased in 2012 due to the much higher than expected uptake of the subsidy for solar photovoltaic panels, which has resulted in very large increases to the FiT levelisation costs being charged to suppliers.

As a result of these factors, retail gross profit for the six months ended 30 June 2012 was £7 million compared to £9 million in 2011.

Operating and administrative expenses

Retail other operating and administrative expenses before depreciation and amortisation were £10 million for the six months ended 30 June 2012 compared to £9 million in 2011, as we continue to invest in the growth of this business.

Retail EBITDA for the six months ended 30 June 2012 was, therefore, a loss of £3 million compared to a loss of £1 million in 2011.

Central costs

Depreciation and amortisation

Depreciation and amortisation was £28 million for the six months ended 30 June 2012 and £29 million for the six months ended 30 June 2011.

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 biomass and 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 2012 £m	Six months ended 30 June 2011 £m	Year ended 31 December 2011 £m
Net unrealised gains/(losses) in the balance sheet at beginning of the period	30.7	(61.0)	(61.0)
Unrealised gains recognised in the income statement	21.0	25.3	89.8
Fair value (losses)/gains recognised in the hedge reserve (a component of equity)	(0.6)	(38.5)	2.6
Premium on options bought/(sold)	0.5	(0.8)	(0.7)
Net unrealised gains/(losses) in the balance sheet at end of the period	51.6	(75.0)	30.7

Power price rises through the first six months of last year were the most significant factor behind fair value losses of £39 million recognised through the hedge reserve in the first six months of 2011, resulting in a net unrealised loss of £75 million in the balance sheet at 30 June 2011.

The unwind of unrealised losses on a proportion of financial coal contracts during 2011 drove the £90 million gain on derivative contracts recognised in the income statement in the year ended 31 December 2011. This, combined with a fall in power prices in the second half of 2011, resulted in a net unrealised gain in the balance sheet at 31 December 2011 of £31 million.

During 2012, power prices rose in the first quarter, but then fell back in the second to similar levels to the year end. The unwind of unrealised losses on further financial coal contracts has driven the £21 million net unrealised gain recognised in the income statement in 2012, and resulted in a net unrealised gain in the balance sheet at 30 June 2012 of £52 million.

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 depreciation, amortisation and unrealised gains and losses on derivative contracts, operating profit for the six months ended 30 June 2012 was £147 million compared to £187 million in 2011.

Interest

Net finance costs for the six months ended 30 June 2012 were £5 million compared to £18 million in 2011. The higher costs in 2011 reflect interest for the first six months of 2011 on our term loan, which was repaid in full on refinancing in July 2011. The refinancing also accelerated the unwind of deferred finance costs in relation to our previous bank facilities, resulting in a one-time interest charge of £5 million recognised in the six months ended 30 June 2011.

Tax

The tax charge for the six months ended 30 June 2012 was £20 million (an effective rate of 14%). This includes the impact of the reduction in the corporation tax rate to 24% from April 2012 on current and deferred tax liabilities and a revision to previous years' capital allowances claims now agreed with HMRC, resulting in a further £8 million tax credit recognised in the period. The tax charge for the first six months of 2011, before exceptional items, was £35 million (an effective rate of 21%), and included the impact of the reduction in the corporation tax rate to 26% from April 2011 on current and deferred tax liabilities.

The exceptional tax credit recognised in the six months to 30 June 2011 arose following agreement reached with HMRC over the Eurobond tax position which resulted in full recognition of the Eurobond settlement of £180 million, and a further £18 million in relation to other legacy 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 2012 was £121 million, compared to £332 million in 2011, and basic and diluted earnings per share were 33 pence compared to 91 pence in 2011.

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 £106 million for the six months ended 30 June 2012 compared to £117 million in 2011. Underlying basic and diluted earnings per share were 29 pence in 2012 compared to 32 pence in 2011.

Other key factors affecting the business

Outages and plant utilisation levels

	Six months ended 30 June 2012	Six months ended 30 June 2011
Electrical output (net sales) (TWh)	13.6	13.1
Load factor (%)	82.4	79.7
Availability (%)	85.2	86.3
Winter forced outage rate (%)	4.1	3.7
Forced outage rate (%)	4.4	4.2
Planned outage rate (%)	10.8	9.8
Total outage rate ⁽¹⁾ (%)	14.8	13.7

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 2012 was 82% compared to 80% in 2011, reflecting an increase in electrical output (net sales) to 13.6TWh in 2012 compared with 13.1TWh in 2011. Plant availability of 85% for the six months ended 30 June 2012 (2011: 86%) demonstrates our leadership position in the coal-fired generation sector. The plant despatch dynamics described in Generation results - Revenue above drove our load factor to 82% 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 2012 were 4.4% and 4.1% respectively, compared to 4.2% and 3.7% in 2011. The 2012 forced outage rate is in line with our long-term target of 5%.

Operational and financial performance

The planned outage rate achieved for the six months ended 30 June 2012 was 10.8% compared to 9.8% in 2011. 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 have completed the first of two planned unit outages for this year in the first six months of 2012. Only one unit underwent a major planned outage in 2011.

Health and safety

Our lost time injury rate and total recordable injury rate were 0.04 and 0.13 respectively for the six months ended 30 June 2012 compared to 0.05 and 0.09 in 2011. 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 £233 million at 30 June 2012 compared to £225 million at 31 December 2011 and £198 million at 30 June 2011. Cash and short-term investments net of overdrafts were £241 million as at 30 June 2012 compared to £233 million at 31 December 2011 and £300 million at 30 June 2011. An analysis of cash flows is set out in the table opposite.

Analysis of cash flows

	Six months ended 30 June 2012 £m	Six months ended 30 June 2011 £m
Cash generated from operations	162.9	131.2
Income taxes paid	(30.2)	(42.2)
Other (losses)/gains	(0.5)	0.8
Net interest paid	(3.6)	(8.1)
Net cash from operating activities	128.6	81.7
Cash flows from investing activities		
Purchases of property, plant and equipment	(76.8)	(13.7)
Short-term investments	20.0	(50.0)
Net cash used in investing activities	(56.8)	(63.7)
Cash flows from financing activities		
Equity dividends paid	(43.1)	(65.3)
Repayment of borrowings	(0.1)	(34.0)
Net cash used in financing activities	(43.2)	(99.3)
Net increase/(decrease) in cash and cash equivalents	28.6	(81.3)
Cash and cash equivalents at 1 January	202.8	236.0
Cash and cash equivalents at 30 June	231.4	154.7
Short-term investments at 30 June	10.0	145.0
Borrowings, excluding overdrafts, at 30 June	(8.2)	(102.1)
Net cash at 30 June	233.2	197.6

Cash generated from operations was £163 million in the six months ended 30 June 2012 compared to £131 million in 2011, driven by a working capital inflow of £18 million in 2012 compared to an outflow of £31 million in 2011, offset by the decrease of £36 million in EBITDA as described above.

The 2012 working capital inflow was driven by a seasonal reduction in the receivables, partially offset by an increase in coal stocks of 0.6 million tonnes (up to 2.0 million tonnes) in the first half of this year. The coal stock build is linked to our biomass plans, as we prepare for a rail delivery system outage to facilitate plant modifications.

A working capital outflow is probable in the second half of the year as we also build biomass stocks ahead of the first unit conversion, which we expect to operate from the second quarter of 2013.

The working capital outflow of £31 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.

Net income taxes paid were £30 million in the six months ended 30 June 2012 compared to £42 million in 2011. 2011 and 2012 payments included settlement of the 2010 and 2011 liability, respectively.

Net cash used in investing activities includes payments in respect of capital expenditure of £77 million in the six months ended 30 June 2012 and £14 million in 2011 (see Capital expenditure). 2012 includes a decrease of £20 million in short-term investments compared to an increase of £50 million in 2011, comprising cash deposits with a maturity of more than three months at inception.

Net cash used in financing activities was £43 million in the six months ended 30 June 2012, being equity dividends paid. The 2011 net cash used in financing activities of £99 million includes equity dividends paid of £65 million and term loan repayments of £34 million, in relation to our previous banking facilities which were repaid on refinancing in July 2011 (see Capital resources and refinancing).

The increase in cash and cash equivalents was, therefore, £29 million in the six months ended 30 June 2012, compared to a decrease of £81 million in 2011. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

In July 2011, we completed a refinancing of our letter of credit, working capital and term loan facilities. 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. We subsequently drew down £10 million against the revolving credit facility, which remains outstanding at 30 June 2012.

In July 2012, we took the first steps towards funding our biomass plans when we secured the commitment to a new £100 million amortising term loan facility with the M&G UK Companies Financing Fund. The facility has a six to eight year maturity profile, is competitively priced and will form an important component of the funding solution for our plans to transform Drax into a predominantly biomass-fuelled generator.

Our strong balance sheet, with net cash of £233 million at 30 June 2012, provides a solid foundation for our remaining funding requirements.

Going concern

We acknowledge guidance on going concern for companies preparing financial statements. We have significant headroom in our banking facilities, a recent history of cash generation and good visibility in medium-term forecasts, due to our progressive hedging strategy. After considering the principal risks and uncertainties set out below, the directors are satisfied that the Group has sufficient resources to begin its investment in its biomass strategy and 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. As noted above (Capital resources and refinancing), we have a £310 million revolving credit facility, and it is envisaged that this facility may assist in managing the cash low points in the cycle if required.

Operational and financial performance

Capital expenditure

Fixed asset additions were £90 million in the six months ended 30 June 2012 compared to £16 million in 2011.

2012 includes the final instalment of our turbine upgrade project, which was completed on time and to budget. Since 2007, we have invested around £100 million to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. The technology is performing to guarantee with all units achieving an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40% at full load.

This represents a 5% improvement on original baseload efficiency of around 38%, and annual savings of 1 million tonnes of CO₂ emissions allowances and approximately half a million tonnes of coal.

Additions in 2012 also include £70 million for biomass infrastructure. We have commenced construction of new biomass fuel delivery, storage and distribution systems at the Drax Power Station site. These are required to support our plans to convert progressively three generating units fully to biomass, which will require between 7 and 8 million tonnes of fuel per annum.

Construction work is phased for completion by mid-2014, and we expect to be in a position to operate the first converted unit in the second quarter of 2013. Including the investment made in the first half of this year, we expect capital costs to be in the region of £170 million for the biomass project this year. On a similar basis, we expect total Group capital expenditure to be around £200 million for the full year.

Although our central plan is now to convert progressively three generating units fully to biomass, rather than enhanced co-firing, we remain confident in the overall scale of the total £650 million - £700 million strategic capital investment plan set out in the 2011 Annual report and accounts. Approximately half of the total capital cost is the investment in downstream plant and equipment described above, largely at the Drax site. The remainder is investment in upstream supply chain infrastructure, mainly pelleting facilities, and any necessary work to ensure the plant is compliant with the Industrial Emissions Directive.

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 2011 Annual report and accounts (pages 32-35) the principal risks and uncertainties that could impact performance. These remain unchanged, and are as follows:

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

Related parties

The Group set out in its 2011 Annual report and accounts (page 115) the related party transactions arising. There have been no material changes since the Annual report and accounts were published.

Positions under contract for 2012, 2013 and 2014

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 23 July 2012, the commodity positions under contract for 2012, 2013 and 2014 were as set out below.

	2012	2013	2014
Power sales (TWh) comprising:	26.3	16.8	4.4
- Fixed price power sales (TWh) at an average achieved price (per MWh)	22.7 @ 51.9	14.2 @ 51.8	1.8 @ 54.9
- Fixed margin and structured power sales (TWh)	3.6	2.6	2.6
CO ₂ emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	26.0	16.5	4.3
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	27.1	18.6	11.3

Fixed price power sales include approximately 4.3TWh supplied to Centrica in the period 1 January 2012 to 23 July 2012 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 3.6TWh in 2012 and 2.6TWh in both 2013 and 2014 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 2012 and approximately 2.4 million tonnes in 2013 and 2014.

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 29 pence per share.

Dividends paid

On 20 February 2012, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 18 April 2012, to pay a final dividend for the year ended 31 December 2011 of 11.8 pence per share (£43 million). The final dividend was subsequently paid on 11 May 2012.

Dividends proposed

On 30 July 2012, the Board resolved to pay an interim dividend for the six months ended 30 June 2012 of 14.4 pence per share (£53 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 12 October 2012 and shares will be marked ex-interim dividend on 26 September 2012.

This Operational and financial performance review was approved by the Board on 30 July 2012.



Tony Quinlan
Finance Director

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

30 July 2012



Tony Quinlan
Finance Director

30 July 2012

Condensed consolidated income statement

	Notes	Six months ended 30 June		Year ended
		2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Revenue		867.9	866.3	1,835.9
Fuel costs in respect of generation		(455.6)	(446.0)	(1,020.8)
Cost of power purchases		(57.8)	(77.8)	(172.3)
Grid charges		(81.1)	(49.9)	(117.6)
Other retail costs		(19.1)	(12.1)	(24.4)
Total cost of sales		(613.6)	(585.8)	(1,335.1)
Gross profit		254.3	280.5	500.8
Other operating and administrative expenses		(128.7)	(119.1)	(224.4)
Unrealised gains on derivative contracts		21.0	25.3	89.8
Operating profit		146.6	186.7	366.2
Interest payable and similar charges		(6.4)	(19.3)	(30.3)
Interest receivable		1.0	1.3	2.2
Profit before tax		141.2	168.7	338.1
Tax:				
- Before exceptional items	5	(20.3)	(34.8)	(71.4)
- Exceptional items	5	-	197.9	197.9
		(20.3)	163.1	126.5
Profit for the period attributable to equity holders		120.9	331.8	464.6
Earnings per share		pence	pence	pence
- Basic	6	33	91	127
- Diluted	6	33	91	126

All results relate to continuing operations.

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

Condensed consolidated statement of comprehensive income

	Six months ended 30 June		Year ended
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Profit for the period	120.9	331.8	464.6
Actuarial (losses)/gains on defined benefit pension scheme	(13.7)	5.2	(3.7)
Deferred tax on actuarial losses/(gains) on defined benefit pension scheme	3.3	(1.4)	0.9
Fair value (losses)/gains on cash flow hedges	(0.6)	(38.5)	2.6
Deferred tax before impact of corporation tax rate change on cash flow hedges	0.1	10.2	(0.7)
Impact of corporation tax rate change on deferred tax on cash flow hedges	0.8	0.8	1.9
Other comprehensive (expense)/income for the period	(10.1)	(23.7)	1.0
Total comprehensive income for the period attributable to equity holders	110.8	308.1	465.6

Condensed consolidated balance sheet

	Notes	As at 30 June		As at
		2012 (Unaudited) £m	2011 (Unaudited) £m	31 December 2011 (Audited) £m
Assets				
Non-current assets				
Intangible assets - goodwill		10.7	10.7	10.7
Property, plant and equipment		1,257.3	1,171.8	1,195.7
Derivative financial instruments		35.3	11.7	11.0
		1,303.3	1,194.2	1,217.4
Current assets				
Inventories		162.3	154.7	137.6
ROC assets		41.2	60.8	32.1
Trade and other receivables		179.2	193.1	269.3
Derivative financial instruments		108.8	78.8	120.6
Short-term investments		10.0	145.0	30.0
Cash and cash equivalents		231.4	168.5	202.8
		732.9	800.9	792.4
Liabilities				
Current liabilities				
Trade and other payables		258.6	255.7	292.8
Current tax liabilities		22.3	30.8	33.8
Borrowings		7.9	105.3	7.1
Derivative financial instruments		65.3	164.9	95.6
		354.1	556.7	429.3
Net current assets		378.8	244.2	363.1
Non-current liabilities				
Borrowings		0.3	10.6	0.5
Derivative financial instruments		27.2	0.6	5.3
Provisions		30.9	6.7	30.5
Deferred tax liabilities		201.3	188.0	203.8
Retirement benefit obligations		48.8	30.0	37.0
		308.5	235.9	277.1
Net assets		1,373.6	1,202.5	1,303.4
Shareholders' equity				
Issued equity		42.2	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	63.6	32.0	63.3
Retained profits/(accumulated losses)		134.8	(4.6)	65.0
Total shareholders' equity		1,373.6	1,202.5	1,303.4

Condensed consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits/ (accumulated losses) £m	Total £m
At 1 January 2011	42.1	1.5	420.7	710.8	59.5	(276.6)	958.0
Profit for the year	-	-	-	-	-	464.6	464.6
Other comprehensive income/(expense)	-	-	-	-	3.8	(2.8)	1.0
Total comprehensive income for the year	-	-	-	-	3.8	461.8	465.6
Equity dividends paid	-	-	-	-	-	(123.7)	(123.7)
Movement in equity associated with share-based payments	-	-	-	-	-	3.5	3.5
At 31 December 2011	42.1	1.5	420.7	710.8	63.3	65.0	1,303.4
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
At 1 January 2012	42.1	1.5	420.7	710.8	63.3	65.0	1,303.4
Profit for the period	-	-	-	-	-	120.9	120.9
Other comprehensive income/(expense)	-	-	-	-	0.3	(10.4)	(10.1)
Total comprehensive income for the period	-	-	-	-	0.3	110.5	110.8
Equity dividends paid	-	-	-	-	-	(43.1)	(43.1)
Movement in equity associated with share-based payments	-	-	-	-	-	2.4	2.4
Issuance of share capital	0.1	-	-	-	-	-	0.1
At 30 June 2012	42.2	1.5	420.7	710.8	63.6	134.8	1,373.6

Condensed consolidated cash flow statement

	Notes	Six months ended 30 June		Year ended
		2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Cash generated from operations	10	162.9	131.2	281.9
Income taxes paid		(30.2)	(42.2)	(67.7)
Other (losses)/gains		(0.5)	0.8	0.7
Interest paid		(4.6)	(10.5)	(18.9)
Interest received		1.0	2.4	2.5
Net cash from operating activities		128.6	81.7	198.5
Cash flows from investing activities				
Purchases of property, plant and equipment		(76.8)	(13.7)	(43.8)
Short-term investments	8	20.0	(50.0)	65.0
Net cash (used in)/from investing activities		(56.8)	(63.7)	21.2
Cash flows from financing activities				
Equity dividends paid	7	(43.1)	(65.3)	(123.7)
Repayment of borrowings		(0.1)	(34.0)	(135.4)
New borrowings		-	-	10.0
Other financing costs paid		-	-	(3.8)
Net cash used in financing activities		(43.2)	(99.3)	(252.9)
Net increase/(decrease) in cash and cash equivalents	8	28.6	(81.3)	(33.2)
Cash and cash equivalents at beginning of the period		202.8	236.0	236.0
Cash and cash equivalents at end of the period		231.4	154.7	202.8

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 2011 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 condensed consolidated financial statements were approved by the Board on 30 July 2012.

Adoption of new and revised accounting standards

In 2011, a number of new standards and interpretations became effective as noted in the 2011 Annual report and accounts (page 87). 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 no significant new standards and interpretations have been issued.

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 2011.

4. Segmental reporting

Information reported to 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.

The measure of profit or loss for each reportable segment, presented to the Board on a regular basis is 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 2012:

	Six months ended 30 June 2012 (Unaudited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	648.6	219.3	-	867.9
Inter-segment sales	145.8	-	(145.8)	-
Total revenue	794.4	219.3	(145.8)	867.9
Result				
Segment EBITDA	156.8	(3.0)	-	153.8
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(28.2)
Unrealised gains on derivative contracts				21.0
Operating profit				146.6
Net finance costs				(5.4)
Profit before tax				141.2

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

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 year ended 31 December 2011:

	Year ended 31 December 2011 (Audited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,560.4	275.5	-	1,835.9
Inter-segment sales	174.8	-	(174.8)	-
Total revenue	1,735.2	275.5	(174.8)	1,835.9
Result				
Segment EBITDA	336.1	(2.5)	-	333.6
Central costs				
Depreciation, amortisation and loss on disposal of property, plant and equipment				(57.2)
Unrealised gains on derivative contracts				89.8
Operating profit				366.2
Net finance costs				(28.1)
Profit before tax				338.1

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 2012 includes an amount of £217.5 million derived from one customer (2011: £243.9 million and £135.9 million derived from two customers), 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

The 2011 comparative figures include an exceptional tax credit of £197.9 million, following agreement reached with HMRC on 5 April 2011, resulting in the resolution of the Eurobond tax position and certain other smaller legacy tax matters. The 2011 income statements for the six months ended 30 June 2011, and year ended 31 December 2011, therefore include 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 Act 2011 (the "Act") was enacted by Parliament in July 2011. The Act confirmed reductions in the rate of corporation tax from 27% to 26% from April 2011, and from 26% to 25% from April 2012, both of which were enacted during the year ended 31 December 2011.

The Finance Bill 2011-12 (the "Bill"), which followed the announcement of the 2012 Budget, was presented to Parliament on 26 March 2012. The Bill proposed a further reduction in the rate of corporation tax from 25% to 24% from April 2012, which was passed by resolution with immediate statutory effect. In addition the Bill proposed reductions in the rate of corporation tax from 24% to 22% by 2014-15 which had not been substantively enacted at the balance sheet date. It is currently expected that each future Finance Bill enacted will reduce the corporation tax rate by 1% until the rate of 22% is reached.

	Six months ended 30 June	Year ended 31 December	
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Tax charge/(credit) comprises:			
Current tax before exceptional items	18.4	32.9	61.3
Deferred tax before exceptional items:			
- Before impact of corporation tax rate change	9.5	9.4	26.2
- Impact of corporation tax rate change	(7.6)	(7.5)	(16.1)
Tax charge before exceptional items	20.3	34.8	71.4
Exceptional items:			
- Current tax	-	(149.5)	(149.5)
- Deferred tax	-	(48.4)	(48.4)
Exceptional items	-	(197.9)	(197.9)
Tax charge/(credit)	20.3	(163.1)	(126.5)

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.

Notes to the condensed consolidated financial statements

6. Earnings per share (continued)

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
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	120.9	331.8	464.6
After tax impact of unrealised gains and losses on derivative contracts	(15.3)	(16.9)	(64.3)
Exceptional items (note 5)	-	(197.9)	(197.9)
Underlying earnings attributable to equity holders of the Company	105.6	117.0	202.4

	Six months ended 30 June		Year ended 31 December
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
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	3.6	2.0	2.6
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	368.5	366.9	367.5
Earnings per share - basic (pence)	33	91	127
Earnings per share - diluted (pence)	33	91	126
Underlying earnings per share - basic (pence)	29	32	56
Underlying earnings per share - diluted (pence)	29	32	55

7. Dividends

	Six months ended 30 June		Year ended 31 December
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (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 2011 of 11.8 pence per share paid 11 May 2012	43.1	-	-
Interim dividend for the year ended 31 December 2011 of 16.0 pence per share paid 14 October 2011	-	-	58.4
Final dividend for the year ended 31 December 2010 of 17.9 pence per share paid 13 May 2011	-	65.3	65.3
	43.1	65.3	123.7

On 30 July 2012, the Board resolved to pay an interim dividend for the six months ended 30 June 2012 of 14.4 pence per share (equivalent to approximately £52.6 million) on or before 12 October 2012. The interim dividend of 14.4 pence per share has not been included as a liability as at 30 June 2012.

8. Net cash

	As at 30 June		As at 31 December	
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m	
Net cash at 1 January	225.2	204.0	204.0	
Increase/(decrease) in cash and cash equivalents	28.6	(81.3)	(33.2)	
(Decrease)/increase in short-term investments	(20.0)	50.0	(65.0)	
(Increase)/decrease in net borrowings	(0.6)	24.9	119.4	
Net cash at period end	233.2	197.6	225.2	

During the previous year, a scheduled term loan repayment of £33.8 million was made on 30 June 2011.

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 was 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, this balance remains outstanding as at 30 June 2012.

In July 2012 we secured the commitment to a new £100 million amortising term loan facility with M&G UK Companies Financing Fund, as part of our longer term funding solution for the conversion of Drax into a predominantly biomass-fuelled power station. The facility is competitively priced, with a six to eight year maturity profile.

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 2012 (Unaudited)			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	47.7	11.4	0.2	59.3
Forward foreign currency exchange contracts	5.0	(0.7)	-	4.3
	52.7	10.7	0.2	63.6

	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

Notes to the condensed consolidated financial statements

9. Hedge reserve (continued)

	As at 30 December 2011 (Audited)			
	Within 1 year £m	1-2 years £m	>2 years £m	Total £m
Commodity contracts	59.6	3.9	-	63.5
Forward foreign currency exchange contracts	0.2	(0.2)	(0.2)	(0.2)
	59.8	3.7	(0.2)	63.3

10. Cash generated from operations

	Six months ended 30 June		Year ended 31 December
	2012 (Unaudited) £m	2011 (Unaudited) £m	2011 (Audited) £m
Profit for the period	120.9	331.8	464.6
Adjustments for:			
Interest payable and similar charges	6.4	19.3	30.3
Interest receivable	(1.0)	(1.3)	(2.2)
Tax charge/(credit) (note 5)	20.3	(163.1)	(126.5)
Depreciation and loss on disposal of property, plant and equipment	28.2	28.5	57.2
Unrealised gains on derivative contracts	(21.0)	(25.3)	(89.8)
Defined benefit pension scheme charge	2.9	3.0	5.4
Non-cash charge for share-based payments	2.4	1.7	3.5
Operating cash flows before movement in working capital	159.1	194.6	342.5
Changes in working capital:			
Increase in inventories	(24.6)	(38.1)	(21.0)
Decrease/(increase) in receivables	90.1	38.8	(36.6)
(Decrease)/increase in payables	(47.3)	(31.3)	6.4
Total decrease/(increase) in working capital	18.2	(30.6)	(51.2)
(Increase)/decrease in ROC assets	(9.1)	(27.7)	1.0
Defined benefit pension scheme contributions	(5.3)	(5.1)	(10.4)
Cash generated from operations	162.9	131.2	281.9

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 2012 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 2012 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.



Glossary

Ancillary services

Services provided to National Grid Company 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 CO₂ 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 System is a mechanism introduced across the EU to reduce emissions of CO₂; 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 Company 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 (LTIR)

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.

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 as an alternative fuel for 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 + worse than first aid injuries)/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

Drax Power Station
Selby
North Yorkshire YO8 8PH

Registration details

Registered in England and Wales,
Company number: 5562053

Enquiries

By telephone:
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By fax:
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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	26 September
Record date for entitlement to the interim dividend	28 September
Payment of the interim dividend (14.4 pence per share)	12 October
Interim Management Statement	13 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.



This report has been printed on Cocoon Silk which is 100% recycled and FSC certified. This report was printed by an FSC and ISO 14001 accredited printer using vegetable oil and soya based inks.

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