

Drax Group plc

# Half year report 2013



## Contents

ifc	Principal performance indicators
01	Chairman's introduction
02	Maximising the value of the Drax business
04	Chief Executive's statement
08	Some of our key priorities
10	Operational and financial performance
21	Directors' responsibility statement
22	Condensed consolidated income statement
23	Condensed consolidated statement of comprehensive income
24	Condensed consolidated balance sheet
25	Condensed consolidated statement of changes in equity
26	Condensed consolidated cash flow statement
27	Notes to the condensed consolidated financial statements
36	Independent review report to Drax Group plc
37	Glossary
39	Shareholder information

## Principal performance indicators

For the six months ended 30 June 2013:

### Total revenue

£919 million

(2012: £868 million)

### Gross profit

£216 million

(2012: £254 million)

### EBITDA

£120 million

(2012: £154 million)

### Underlying earnings

17 pence per share

(2012: 29 pence per share)

### Net cash

£245 million

(2012: £233 million)

### Load factor

77%

(2012: 82%)

### Carbon dioxide emissions

764 tonnes per GWh

(2012: 766 tonnes per GWh)

### Total recordable injury rate

0.23

(2012: 0.13)

Note: Comparatives all relate to the six month period ended 30 June 2012.

## Chairman's introduction



The Group performed well in the first half of the year. We have delivered profits in line with expectations, although lower than for the same period last year reflecting the increased cost of carbon. In accordance with our dividend policy, shareholders will receive an interim ordinary dividend of 8.7 pence per share in October, equivalent to approximately £35 million.

We started this year with our sights firmly set on converting our first generating unit to run on sustainable biomass in place of coal. The unit came on stream at the beginning of April and is performing to plan. We now have four months' valuable experience operating the largest converted unit in the world, which is a significant achievement.

We have set out plans to convert three of our six generating units and to become a predominantly biomass-fuelled generator. Much engineering and construction work is underway at the Drax Power Station site and we will start commissioning our new biomass receipt, storage and distribution systems later this year.

More than ever we are convinced of the important role that biomass has to play in the UK energy mix. However, biomass fuel must be underpinned by very robust sustainability standards. We demonstrate this in our own sourcing and supply chain, and continue to advocate and support the requirement for mandatory standards across our industry. This is simply doing the right thing and should underpin confidence in what is a cost-effective, low carbon and reliable source of renewable power.

Downstream, our retail business continues to provide value to the Group as a direct, credit-efficient route to market for our power, and increasingly our renewable power. Upstream, our developments in the US have started to take shape. Construction has started at our pellet plant site in Mississippi, whilst in Louisiana the second pellet plant site and the Baton Rouge port site are being mobilised for the start of construction.

As always I should like to thank all Group staff for their contribution to what has been a successful first half of the year.

A handwritten signature in blue ink that reads "Chris Berry". The signature is stylized with a long, sweeping underline.

Charles Berry  
Chairman

29 July 2013

## Maximising the value of the Drax business

Our overriding objective is to maximise the value of the Drax business whilst increasing our electricity generation from sustainable biomass, thereby 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 the power price plus renewable support and the cost of biomass.

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

### Fuel

#### How we maximise value...

For the last ten years we have burnt sustainable biomass in place of some of our coal, when economic to do so. We are now implementing our plan to become a predominantly biomass-fuelled generator. Beyond biomass, we also have the ability to burn other fuels, such as petcoke and pond fines, which can be economically advantageous. By diversifying our fuel sources not only are we less reliant on a single fuel type, we are also able to capture value from commodity market cycles, and in the case of biomass avoid the cost of carbon.

### Generation

#### How we maximise value...

Through the completion of the £100 million turbine upgrade project we have secured our position as the most efficient coal-fired power station in the UK, and with it we are delivering coal and CO<sub>2</sub> savings. With leading operational performances across all aspects of the generation business, from safety to maintenance, we are able to deliver high availability and reliability. In addition, the flexibility of our despatch allows us to respond quickly to changes in demand. Together these characteristics mean we are consistently there when needed, both to meet our contractual positions and to provide support services critical to security of supply.



## Environment

### How we maximise value...

We strive to be at the forefront of environmental performance in order to maintain our commercial and environmental leadership position in the coal-fired sector. Through burning sustainable biomass and our efficiency improvements we are able to reduce the amount of coal we burn, save on carbon costs and reduce emissions of CO<sub>2</sub>. We generate revenue through sales of our by-products. We aim to maximise sales of ash produced from burning coal, which not only saves on landfill costs, but creates its own revenue stream. By reducing emissions of SO<sub>2</sub>, through our flue gas desulphurisation process, we produce gypsum which, like ash, is sold to the construction industry.

## Trading

### How we maximise value...

As the largest power station in the UK we are able to utilise economies of scale through, for example, procuring fuel at competitive prices. We are always looking to increase the trading options available to us, for example, through our retail business. We benefit from having a physical asset to trade around and through a seamless interface with the operations side of the business we derive value from our power station's high availability and flexibility, enabling us to extract value even when market conditions are poor.

## Retail

### How we maximise value...

We have already achieved significant growth in a competitive marketplace and have become established as a recognised supplier by businesses across the UK. We have plans to grow further and deliver our tailor-made supply contracts to even more business customers. Our retail business increases the trading options available for our power output, providing an important, credit-efficient and direct route to market.

## Chief Executive's statement



### Introduction

Profits for the first half of the year are lower than profits in the first half of 2012, but in line with expectations. At the beginning of this year, we entered into Phase III of the EU ETS and no longer receive a free carbon allocation. In addition, the UK carbon tax came into effect in April. As a result our carbon costs are higher, with a consequent impact on our profits. This is all well understood by shareholders and the stock market. Through these increased costs and Government's trajectory for increasing the UK carbon tax over time, there will be a growing downward pressure on the profitability of all coal-fired electricity generators. Expectations of our profit performance must be viewed in this context until biomass reaches an appropriate scale.

The highlight of the first six months of the year is undoubtedly the conversion of our first generating unit to burn sustainable biomass in place of coal. The unit was brought into service at the beginning of April and is performing in line with plan and safely.

Towards the end of April, we announced that we had agreed a £75 million amortising loan facility with Friends Life, underpinned by a guarantee from HM Treasury issued under the Infrastructure UK Guarantee Scheme, further enhancing our financing structure.

Our good operational performance during the first half of the year has supported both our contracted position and our ability to take advantage of market opportunities. Trading conditions in the markets in which we operate have been favourable and we have strengthened our contracted position, more than doubling our forward power sales for 2014 since the beginning of the year. We are now almost fully hedged for 2013 and well advanced for 2014.

Elsewhere in the business, we successfully concluded the contractual arrangements to commence construction of our two US-based pellet plants and of our US port facility. Finally, our retail business, Haven Power Limited ("Haven Power"), continues to provide a credit-efficient route to market and has delivered significant growth in sales of almost 50% in the first half of the year.

### Commodity markets

We have seen attractive dark green spreads, the difference between the price of power and the cost of coal and carbon, over the first six months of the year. The drivers for these attractive spreads are relatively stable gas and, therefore, power prices, very low coal prices and low carbon prices.

However, as noted above, the introduction of both the full auctioning of EU emissions allowances from the start of the year and the UK carbon tax from April has increased costs for coal-fired generators.

Market bark spreads, the difference between power price plus renewable support and the cost of biomass, have fallen this year, principally as a result of currency effects, with a weaker British pound sterling and most biomass used for large scale power generation priced in US dollars or euros. We have implemented an extensive foreign currency hedging programme to support our biomass procurement activities as detailed in the Operational and financial performance review.

Throughout the first half of the year, dark green spreads were higher than bark spreads. Looking forward, Government's announced annual increase in the UK carbon tax, whilst strengthening the case for biomass generation, is likely to erode the competitive position of coal-fired generation plant.

## Generation performance

Our safety performance continues to be industry-leading at a time of considerable project activity and outage work. The engineering and construction work associated with our biomass conversion has continued apace in the first half of the year and we have completed the first of our two major planned outages. Compared to the same period last year we have seen an increase of more than 50% in the number of man-hours worked at the power station site.

We have enjoyed continued good operational performance from our coal units at Drax Power Station. Our load factor for the first half of the year has again been high compared to other coal and gas-fired plants, driven by our high efficiency, and the quality and competitiveness of the system support services we are able to offer the National Grid.

## First unit conversion

After a one month outage to conduct the final stage of the necessary modifications to the boiler and through utilising, on a temporary basis, our existing biomass co-firing receipt, storage and handling systems, we started running our first converted biomass unit at the beginning of April.

We are very pleased with the technical performance to date, which has been in line with plan. The unit has achieved output levels of up to 585MW (c.10% lower than coal) with no loss of flexibility. To date, we have not encountered significant slagging, fouling or corrosion inside the boiler. Emissions of nitrogen oxides have been significantly lower than for the coal units. The efficiency modifications we have made so far have been effective and the overall combustion process is stable.

Technical availability of 76% and the outage rates set out in the Operational and financial performance review are largely as expected for this first newly converted unit.

The load factor of 57% was significantly lower than we expect to deliver in the future. Normally, biomass units would be expected to have very high load factors when available, reflecting the favourable economics of biomass generation. However, logistics have been challenging and as a result generation from this converted unit was materially constrained over the period by fuel availability. This was due to the temporarily limited biomass storage facilities on-site, as well as the use of some temporary supply chain facilities off-site pending delivery of the permanent facilities.

Later in the year we will begin a phased commissioning of the new on-site biomass receipt, storage and distribution systems, during which time we will gradually switch from the temporary arrangements to the purpose-built systems.

We remain confident that average availability for the first converted unit will be 80% for 2013 and that, thereafter, we will begin to deliver performance in line with operational guidance previously provided.

## Chief Executive's statement

Next year will be characterised by continued transformation. We expect to enter 2014 with the first unit fuelled entirely by the new on-site systems and conversion work continuing on the second and third units. Our first 50 bespoke biomass rail wagons should be fully operational by the end of the first quarter and we are aiming to convert the second unit in the Summer.

### Retail performance

Haven Power continues to provide us with a valuable, credit-efficient alternative to trading through the wholesale market. Sales growth within the industrial and commercial, and small and medium enterprises markets remains the business priority. With significant growth achieved in the first half of the year we are confident in our ability to continue to grow our power sales to business customers.

### Biomass supply chain

We continue to make good progress with our biomass sourcing. Further to securing the rights to sufficient fibre for the first unit conversion, we are well advanced with sourcing for the second unit and continue negotiations for the third.

The work we are doing on sustainability criteria for the biomass we procure continues to be industry-leading. All the biomass we source complies with our sustainability principles.

Other areas of the biomass fuel supply chain, namely port, shipping and rail arrangements, are progressing well. Agreements are in place for the expansion of import capacity through UK ports. In addition to the existing facilities at Port of Tyne, construction is now underway at Hull and Immingham, and we have further expansion at other UK ports under negotiation.

With the construction contracts concluded for our US pellet plants, one in each of the states of Louisiana (Morehouse) and Mississippi (Amite), we have now broken ground at Amite and expect to start construction at Morehouse in the Autumn. Construction of the port facility in Louisiana (Baton Rouge) is expected to begin shortly.

We are targeting the first quarter of 2015 for the start of commercial operations at Amite and Baton Rouge and the second quarter for Morehouse, with full capacity reached six months later.

### Legislative and regulatory framework

#### Sustainability criteria

The Government's response to its consultation on sustainability criteria for biomass is expected shortly. We continue to advocate the need for harmonised, mandatory sustainability criteria across the bioenergy sector. Through calculating the life cycle carbon footprint of all the biomass we buy, we are confident that we are delivering significant carbon savings compared to burning coal and further that our fibre sourcing strategy will meet the UK mandatory standard when it comes into effect.

#### Energy Bill

The Energy Bill, currently making its passage through Parliament, will enable the Government's Electricity Market Reform ("EMR") measures. In June 2013, the Government published some information on certain of the EMR measures, including further detail on the Feed-in Tariffs with Contracts for Difference ("CFD") for renewable technologies and the Capacity Market.

With respect to the CFD, draft strike prices and contract term principles were published. CFD are fixed price long-term contracts which, for new renewable investments, will replace the Renewables Obligation ("RO") from April 2017. Some details were also given in relation to the Final Investment Decision ("FID") Enabling CFD, which provides an alternative to the RO in advance of the CFD becoming available.

Detailed design proposals for a Capacity Market to ensure security of electricity supply were also published. Subject to legislation and state aid clearance, the Government will run the first Capacity Market auction in 2014 for delivery of capacity from the Winter of 2018/19. All existing and new forms of capacity will be eligible to participate in the Capacity Market, except for capacity supported by CFD, small scale Feed-in Tariffs or the RO, and interconnected capacity, although the latter may be eligible in future.



Earlier this month the draft EMR Delivery Plan was published for consultation. The document included information on the methodology and analysis behind the draft CFD strike prices, as well as the proposed draft reliability standard which will inform the level of capacity to be contracted through the Capacity Market.

We welcome the options which may now be available to us to secure support for future unit conversions and for our coal-fired units to participate in the Capacity Market. We have long believed that the introduction of a CFD mechanism would create a more level playing field for investment in renewables by new entrants and independent generators, and represent good value for consumers.

We will now engage fully in the consultation process and evaluate each of the options available.

#### 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. We remain on track to determine the optimal solution by the end of the year.

#### Creating low cost options for the future

We continue to pursue a number of low cost development options for the future. These include a fourth unit conversion at Drax, the White Rose Carbon Capture and Storage ("CCS") Project, securing new sites for further pellet plant and port facilities, and exploring options for alternative fuels and generation capacity.

Evaluation of a fourth unit conversion at Drax is underway, including assessment of whether this would be best delivered through modification of our existing co-firing systems, currently being utilised for our first unit, or investment in new bespoke facilities.

Together, Alstom UK Limited, Drax and BOC (a member of The Linde Group) have formed a consortium in support of the White Rose CCS Project, a proposed oxy-combustion CCS demonstration project of up to 450MW located at the Drax Power Station site.

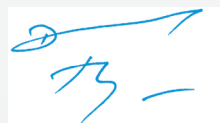
In March 2013, the Government announced that the project was one of two preferred bidders in the UK's CCS Commercialisation Programme Competition. We are now in discussion with Government to agree terms for a Front End Engineering and Design ("FEED") study. In addition, the Government submitted a funding application to the European Commission for the project under the second call of the European NER 300 programme.

A final investment decision is unlikely to be taken until 2015 and will be dependent on successful outcomes of the FEED study and the funding processes, as well as the proposed EMR mechanism to incentivise low carbon technologies. Whilst clearly an interesting and important project, we will only progress this investment if it delivers an appropriate return on capital, commensurate with any technical and commercial risks.

We continue to develop our options for further investments in biomass pellet plant facilities and port facilities in locations including the US and Latin America.

We believe that, as proposed, the UK Capacity Market has the potential to deliver attractive returns for investments. We will continue to assess these proposals and determine whether they give rise to any potentially valuable opportunities for the Group to benefit from our core competencies.

Delivering leading operating and cost performance will continue to be a key focus of our efforts as we implement our strategy to change from being a coal-fired generator burning some biomass to being a biomass-fired generator burning some coal. Transforming Drax into a predominantly biomass-fuelled generator will secure an attractive future for our business and our shareholders. It will also deliver cost-effective, low carbon and reliable renewable power, which is good for the consumer, good for the environment and good for security of supply.



Dorothy Thompson CBE  
Chief Executive

29 July 2013

## Some of our key priorities

# Our transformation continues...



One of our key priorities...

### **Maintaining operational excellence**

The power station is now benefiting from the completion of the £100 million project to upgrade our high and low pressure turbines, which is delivering an overall efficiency improvement and a reduction in emissions of carbon dioxide. The three generating units being converted to biomass will also benefit from investment in upgrading the intermediate pressure turbines, which is due to commence in 2014.



One of our key priorities...  
**Delivering our biomass strategy**

In April, we converted our first generating unit to burn sustainable biomass in place of coal at Drax Power Station. Upstream, our developments in the US have started to take shape and we continue to invest and work with partners to build and strengthen each of the links in the supply chain from field or forest-to-furnace.



One of our key priorities...  
**Growing our retail business**

Haven Power continues to provide us with a valuable, credit-efficient route to market for our power, delivering significant growth in sales of almost 50% in the first half of 2013.

## Operational and financial performance

### Results of business

	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 £m
Total revenue	918.5	867.9
Fuel costs in respect of generation <sup>(1)</sup>	(409.0)	(455.6)
Cost of power purchases <sup>(2)</sup>	(145.6)	(57.8)
Grid charges <sup>(3)</sup>	(102.4)	(81.1)
Other retail costs <sup>(4)</sup>	(45.5)	(19.1)
Total cost of sales	(702.5)	(613.6)
<b>Gross profit</b>	<b>216.0</b>	<b>254.3</b>
Other operating and administrative expenses excluding depreciation, amortisation and unrealised gains/(losses) on derivative contracts <sup>(5)</sup>	(96.0)	(100.5)
<b>EBITDA<sup>(6)</sup></b>	<b>120.0</b>	<b>153.8</b>
Depreciation and amortisation	(28.8)	(28.2)
Unrealised gains on derivative contracts	122.4	21.0
<b>Operating profit</b>	<b>213.6</b>	<b>146.6</b>
Net finance costs	(8.0)	(5.4)
<b>Profit before tax</b>	<b>205.6</b>	<b>141.2</b>
Tax:		
– Before impact of corporation tax rate change	(41.7)	(27.9)
– Impact of corporation tax rate change	–	7.6
Tax charge	(41.7)	(20.3)
<b>Profit for the period attributable to equity shareholders</b>	<b>163.9</b>	<b>120.9</b>
<b>Earnings per share</b>	<b>pence</b>	<b>pence</b>
– Statutory basic	41	33
– Statutory diluted	40	33
– Underlying basic and diluted <sup>(7)</sup>	17	29

All results relate to continuing operations.

#### Notes:

- (1) Fuel costs in respect of generation consist predominantly of coal, sustainable biomass and carbon dioxide ("CO<sub>2</sub>") emissions allowances, together with pond fines, 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"), Levy Exemption Certificates ("LECs"), metering and Feed-in Tariff levellisation.
- (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 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.

## Introduction

EBITDA was £120 million for the six months ended 30 June 2013 compared to £154 million for the six months ended 30 June 2012.

Our results for the first half of 2013 were supported by good operational performance. The expected reduction in profitability compared to last year reflects increased carbon costs, with the removal of free carbon allowances in 2013 under Phase III of the EU ETS and implementation of the UK carbon tax from April, together adding £46 million to cost of sales in the first six months of 2013.

Looking forward, we have a strong near-term hedge in place through our contracted position, but earnings will be impacted by the increasing carbon costs until our biomass generation becomes more substantial.

As described in the Chief Executive's statement, our plans to become a predominantly biomass-fired power generator are well underway, with the successful conversion of our first unit in April. In support of these plans investment on-site at the Drax Power Station and through the biomass supply chain is continuing on schedule and is reflected in capital expenditure of £138 million in the first half of 2013 (2012: £90 million).

Our retail business, Haven Power Limited ("Haven Power"), continues to deliver good volume growth with sales of 3.6TWh in the six months to 30 June 2013 compared to 2.5TWh during the same period in 2012.

Following much work last year and this, the balance sheet is strong. In April we agreed a £75 million amortising loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme. This replaces £50 million of the £100 million amortising loan facility agreed with the UK Green Investment Bank, which was signed in December 2012. With the full £225 million of term loans under our financing structure now drawn down, net cash at 30 June 2013 was £245 million.

The Board has resolved to pay an interim dividend for 2013 of 8.7 pence per share (£35 million) for the six months ended 30 June 2013, compared to 14.4 pence per share (£53 million) for the six months ended 30 June 2012.

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 2013 was £785 million compared to £794 million in 2012. Total generation revenue in 2013 includes power sales of £770 million (2012: £766 million), ROC and LEC sales of £2 million (2012: £17 million), ancillary services income of £6 million (2012: £6 million) and other income of £8 million (2012: £5 million).



## Operational and financial performance

## Segmental information

	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 £m
<b>Revenue</b>		
Power sales	769.7	766.2
ROC and LEC sales	1.6	17.2
Ancillary services income	6.0	6.3
Other income	7.6	4.7
Total generation revenue	784.9	794.4
Retail revenue	322.8	219.3
Intercompany sales	(189.2)	(145.8)
<b>Total Group revenue</b>	<b>918.5</b>	<b>867.9</b>

## Cost of sales

Fuel costs in respect of generation	409.0	455.6
Generation cost of power purchases	138.8	59.0
Generation grid charges	30.6	32.4
Total generation cost of sales	578.4	547.0
Retail cost of power purchases	195.0	138.6
Retail grid charges	71.8	48.7
Other retail costs	46.5	25.1
Total retail cost of sales	313.3	212.4
Intercompany purchases	(189.2)	(145.8)
<b>Total Group cost of sales</b>	<b>702.5</b>	<b>613.6</b>

## Gross profit

Generation gross profit	206.5	247.4
Retail gross profit	9.5	6.9
<b>Group gross profit</b>	<b>216.0</b>	<b>254.3</b>

Operating and  
administrative expenses

Generation operating and administrative expenses	85.9	90.6
Retail operating and administrative expenses	10.1	9.9
<b>Group operating and administrative expenses</b>	<b>96.0</b>	<b>100.5</b>

## EBITDA

Generation EBITDA	120.6	156.8
Retail EBITDA	(0.6)	(3.0)
<b>Group EBITDA</b>	<b>120.0</b>	<b>153.8</b>

Net power sold decreased to 12.6TWh in the six months ended 30 June 2013, compared to 13.6TWh in 2012, at a lower average achieved price of electricity of £50.1 per MWh this year, compared to £52.0 per MWh in 2012, resulting in an overall reduction in power sales from electricity generated. However, total power sales for 2013 also include £139 million of sales met through purchasing additional power in the market (see Cost of power purchases below) in comparison to £59 million in 2012.

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. The decrease in achieved price is therefore a function of the timing of our sales and reflects the fall in gas and power prices towards the end of 2011.

ROC and LEC sales have decreased from £17 million in the six months to 30 June 2012 to £2 million in 2013. The timing of ROC sales is largely driven by a combination of Renewables Obligation deadlines and commercial considerations. Where ROCs and LECs have been generated but not sold they are held on the balance sheet. ROC and LEC assets at 30 June 2013 were £60 million compared to £41 million at 30 June 2012.

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 2013 these revenues were £14 million compared to £11 million in 2012.

## Fuel costs (coal, biomass and other fuels)

Fuel costs in respect of generation were £409 million during the six months ended 30 June 2013 (2012: £456 million) with approximately 4.3 million tonnes of coal burnt in 2013 compared to 4.6 million tonnes for the same period in 2012. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities.

In 2013, we burnt 0.4 million tonnes of biomass compared to 0.5 million tonnes during the same period in 2012. In 2013 most of the biomass relates to volumes burnt in our newly converted unit since April, whereas most of last year's burn (0.4 million tonnes) related to our biomass trials.

In addition, we burnt 0.3 million tonnes of pond fines during the first six months of 2013 (2012: 0.4 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 88% of total fuel burnt (by energy content) in the six months ended 30 June 2013 compared to 87% in 2012. Biomass comprised 7% of total fuel burnt in both years.

Our average cost of fuel per MWh (excluding CO<sub>2</sub> emissions allowances) was £26.9 for the six months ended 30 June 2013, compared to £30.7 in 2012. The decrease in average fuel prices was largely driven by falling international coal prices, where continued over supply in the global traded market reflects high levels of US exports.

The impact of this price reduction was partially offset in the second quarter by the implementation of the UK carbon tax in April. The tax is charged as a levy on our coal deliveries and is recognised in the income statement as an additional fuel cost when we burn the related coal. The associated charge to the income statement was £14 million for the period to 30 June 2013.

The net cost of biomass represents an increasingly important element of our fuel costs. There are two parts to this cost; the gross cost of biomass delivered to the plant and the offsetting value of ROCs and LECs earned through burning biomass. The value of ROCs and LECs earned is recognised as a reduction in biomass costs in the period the related biomass is burnt. ROCs and LECs are held on the balance sheet within ROC and LEC assets until sold. Upon sale, income is recognised in revenue and a cost of sale recorded within fuel costs for the balance sheet value of the ROC or LEC.

### Fuel costs (CO<sub>2</sub> emissions allowances)

From 2013, we entered Phase III of the EU ETS, with no national CO<sub>2</sub> emissions allowances allocation. We purchase CO<sub>2</sub> emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Our CO<sub>2</sub> emissions allowances requirement for the six months ended 30 June 2013 was approximately 10.2 million tonnes, all of which were purchased. Our requirement for the first half of 2012 was 11.2 million tonnes, of which 6.5 million tonnes were purchased and 4.7 million tonnes allocated free under the UK NAP.

The average price expensed for purchased CO<sub>2</sub> emissions allowances during the six months ended 30 June 2013 was £6.9 per tonne, compared to £5.9 per tonne in 2012, reflecting the timing of purchases under fixed price contracts in the forward and near-term markets. As a result, the cost of carbon allowances was £70 million in 2013 compared to only £38 million in 2012.

### 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 2013, the net cost of purchased power for the generation business was £139 million compared to £59 million incurred in 2012.

### Grid charges

Generation grid charges for the six months ended 30 June 2013 were £31 million compared to £32 million in 2012.

As a result of these factors, generation gross profit for the six months ended 30 June 2013 was £207 million compared to £247 million in 2012.

## Operational and financial performance

### Operating and administrative expenses

Generation other operating and administrative expenses before depreciation and amortisation were £86 million for the six months ended 30 June 2013 compared to £91 million in 2012.

The higher costs in the first half of 2012 included our obligations under the Community Energy Saving Programme, which ended in December 2012 (see note 12 to the condensed consolidated financial statements).

We continue to carefully control our cost base with our full year Group operating cost estimate (including retail operating costs) unchanged at £215 million.

Generation EBITDA for the six months ended 30 June 2013 was therefore £121 million compared to £157 million in 2012.

### Retail results

#### Revenue

Haven Power has realised substantial growth so far this year, with sales volumes increasing from 2.5TWh in the six months ended 30 June 2012 to 3.6TWh in the six months ended 30 June 2013. This reflects planned growth in Haven Power's industrial and commercial customer base, along with growth in our sales to the small and medium enterprises market. As a result, retail sales revenue increased by almost 50% to £323 million for the six months to 30 June 2013 compared to £219 million in 2012.

#### Cost of power purchases

Retail cost of power purchases for the six months ended 30 June 2013 were £195 million compared to £139 million incurred in 2012, reflecting the rise in sales volumes.

#### Grid charges

Higher retail volumes, alongside increased charges, have also driven a rise in grid charges for the retail business to £72 million in the six months to 30 June 2013, from £49 million in 2012.

### Other retail cost of sales

Other retail costs include broker fees, ROCs, LECs, metering and Feed-in Tariff ("FIT") costs and were £47 million in the six months ended 30 June 2013, compared to £25 million in 2012. In addition to higher volumes, expenditure continues to grow due to the increasing FIT levelisation costs being charged to suppliers.

As a result of these factors, retail gross profit for the six months ended 30 June 2013 was £9 million compared to £7 million in 2012.

### Operating and administrative expenses

Retail other operating and administrative expenses before depreciation and amortisation were £10 million for both the six months ended 30 June 2013 and 2012.

Retail EBITDA for the six months ended 30 June 2013 was, therefore, a loss of £1 million compared to a loss of £3 million in 2012.

### Central costs

#### Depreciation and amortisation

Depreciation and amortisation was £29 million for the six months ended 30 June 2013 and £28 million for the six months ended 30 June 2012.

#### 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.

Mark-to-market movements on our derivative contracts that are considered to be effective 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 and carbon delivered during the reporting period, and the recording of mark-to-market positions on power and carbon yet to be delivered at the end of the period.



The unrealised gains and losses recognised in the income statement arise from mark-to-market movements on our derivative contracts which do not qualify for hedge accounting; largely foreign exchange and financial coal.

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 2013 £m	Six months ended 30 June 2012 £m	Year ended 31 December 2012 £m
Net unrealised (losses)/ gains in the balance sheet at beginning of the period	(110.3)	30.7	30.7
Unrealised gains/(losses) recognised in the income statement	122.4	21.0	(36.1)
Fair value losses recognised in the hedge reserve (a component of equity)	(32.9)	(0.6)	(105.7)
Premium on options	0.1	0.5	0.8
Net unrealised (losses)/ gains in the balance sheet at end of the period	(20.7)	51.6	(110.3)

A weaker US dollar, relative to sterling, at 31 December 2012 drove the net unrealised loss position recognised in the balance sheet at the start of 2013, which incorporated the mark-to-market position on a number of our foreign exchange contracts. These contracts reflect an extensive foreign currency hedging programme to support our biomass procurement activities. The programme covers all contracted and a substantial proportion of as yet uncontracted but forecast purchases and provides a significant degree of protection from adverse currency movements.

As the US dollar strengthened against sterling during 2013, the unrealised loss position has reversed. With the majority of this movement relating to portions of the derivative contracts which do not qualify for hedge accounting, this gave rise to the £122 million unrealised gain recognised through the income statement during the first half of this year.

Power prices have remained relatively stable during the period, whereas carbon prices have fallen since the end of 2012. This resulted in an increase in the net unrealised loss position on our contracts which do qualify for hedge accounting, and is reflected in the £33 million loss recognised through the hedge reserve in the period.

In summary, after the changes in commodity prices and currency rates so far this year, the principal components of a net unrealised loss of £21 million recognised in the balance sheet at 30 June 2013 are unrealised losses on our carbon contracts and unrealised losses on financial coal contracts which have remained at a similar level to year end, largely offset by unrealised gains under our foreign exchange programme. Following a period of relatively stable power prices, the unrealised loss on our power book is not currently significant.

In considering mark-to-market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green or bark 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 2013 was £214 million compared to £147 million in 2012.

### Interest

Net finance costs for the six months ended 30 June 2013 were £8 million compared to £5 million in 2012.

The higher costs in 2013 reflect interest incurred during the period on our new term loans, as described in Capital resources and refinancing.

## Operational and financial performance

### Tax

The tax charge for the six months ended 30 June 2013 was £42 million (an effective rate of 20%). This includes previous years' research and development tax relief, now agreed with HMRC, resulting in a £6 million credit recognised in the period. The tax charge for the first six months of 2012 was £20 million (an effective rate of 14%). This included the impact of a 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, resulting in a further £8 million tax credit.

It is likely that our underlying effective tax rate for the full year will be relatively low as the Group will benefit from the research and development tax relief noted above, together with tax credits arising as we revalue our net deferred tax liability down to the 20% corporation tax rate which will be legislated in the second half of 2013. In future years we would expect our underlying tax rates to be more closely aligned with standard corporate tax rates.

### 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 2013 was £164 million compared to £121 million in 2012, and basic and diluted earnings per share were 41 pence and 40 pence, respectively, compared to 33 pence, basic and diluted, in 2012.

Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised gains and losses on derivative contracts) was £70 million for the six months ended 30 June 2013 compared to £106 million in 2012. Underlying basic and diluted earnings per share were 17 pence in 2013 compared to 29 pence in 2012.

### Other key factors affecting the business

#### Outages and plant utilisation levels

	Six months ended 30 June 2013	Six months ended 30 June 2012
	Biomass	Coal
Forced outage rate (%)	13.1	7.6
Planned outage rate (%)	12.9	11.1
Availability (%)	76	82
Electrical output (net sales) (TWh)	0.7	11.9

#### Note:

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.

Coal plant availability of 82% for the six months ended 30 June 2013 (2012: 85%) demonstrates our continuing leadership position in the coal-fired generation sector.

The forced outage rate of 7.6% for our coal plant for the six months ended 30 June 2013 is higher than our long-term target of 5%. We have continued to test a wide variety of advantaged fuels, for example coals with lower cost than the standard bituminous coal that we burn. Although some of these fuels have resulted in a higher number of plant integrity issues than we typically experience, the testing work is an important component of our drive to optimise value from our fuel mix, as well as the work to define our solution for compliance with the Industrial Emissions Directive (see Chief Executive's statement).

The planned outage rate for the coal plant for the six months ended 30 June 2013 was 11.1% compared to 10.8% in 2012. 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 completed the first of two major planned outages for each year in the first six months of 2012 and 2013.

The resulting coal plant load factor was 78% for the period, which compares well with the average for other UK coal and gas plants and reflects our good availability and plant despatch economics.

At the beginning of April our first converted biomass unit was brought into service, utilising our existing biomass co-firing receipt, storage and handling systems. We have been pleased with the technical performance so far, which is in line with plan.

Availability for the period was 76%, with the issues driving the forced outage rate of 13.1% largely as expected for a newly converted unit. The planned outage rate of 12.9% reflects scheduled inspection work as well as the impact of a suspension of fuel deliveries to allow for work to be completed on our rail loop upgrade.

As described in the Chief Executive's statement, the load factor for the period of 57% was significantly lower than we expect to achieve in the future. Logistics have been challenging for our temporary systems, with only limited on-site storage available until the new systems are operational. In addition, reliability issues with coal wagons converted to transport biomass have further restricted fuel deliveries, with only limited capacity in place to receive biomass by road. As a result, operation from this first converted unit was materially constrained over the period by fuel availability.

Later in the year we will be commencing a phased commissioning of the new biomass receipt, storage and distribution systems and we expect the first unit to operate entirely on the new on-site systems by the end of the year. The first two sets of our new rail wagons will also be fully operational by the end of the first quarter in 2014. We remain confident that average availability for the first converted unit will improve to around 80% for 2013 and that thereafter we will begin to deliver performance in line with the operational guidance previously provided.

The load factor for the plant as a whole for the six months ended 30 June 2013 was 77% compared to 82% in 2012, reflecting a decrease in electrical output (net sales) to 12.6TWh in 2013, compared with the record output of 13.6TWh in 2012.

### Health and safety

Our lost time injury rate and total recordable injury rate were 0.09 and 0.23, respectively, for the six months ended 30 June 2013 compared to 0.04 and 0.13 in 2012. These industry-leading safety

statistics have been delivered against a backdrop of an increase of more than 50% in man-hours worked in the first half of 2013 compared to the same period in 2012.

## Liquidity and capital resources

Net cash including short-term investments was £245 million at 30 June 2013 compared to £311 million at 31 December 2012 and £233 million at 30 June 2012. Cash and short-term investments were £460 million as at 30 June 2013 compared to £402 million at 31 December 2012 and £241 million at 30 June 2012. An analysis of cash flows is set out in the table below.

### Analysis of cash flows

	Six months ended 30 June 2013 £m	Six months ended 30 June 2012 £m
<b>Cash generated from operations</b>	<b>129.3</b>	162.9
Income taxes paid	(13.2)	(30.2)
Other losses	(0.2)	(0.5)
Net interest paid	(5.0)	(3.6)
<b>Net cash from operating activities</b>	<b>110.9</b>	128.6
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(133.2)	(76.8)
Short-term investments	10.0	20.0
<b>Net cash used in investing activities</b>	<b>(123.2)</b>	(56.8)
<b>Cash flows from financing activities</b>		
Equity dividends paid	(43.8)	(43.1)
New borrowings	125.0	–
Issue of shares under employee share schemes	1.7	–
Repayment of borrowings	(0.1)	(0.1)
Other financing costs	(2.3)	–
<b>Net cash from/(used in) financing activities</b>	<b>80.5</b>	(43.2)
<b>Net increase in cash and cash equivalents</b>	<b>68.2</b>	28.6
Cash and cash equivalents at 1 January	371.7	202.8
<b>Cash and cash equivalents at 30 June</b>	<b>439.9</b>	231.4
Short-term investments at 30 June	20.0	10.0
Borrowings at 30 June	(214.8)	(8.2)
<b>Net cash at 30 June</b>	<b>245.1</b>	233.2

## Operational and financial performance

Cash generated from operations was £129 million in the six months ended 30 June 2013 compared to £163 million in 2012, driven by a decrease of £34 million in EBITDA, as described above.

Net income taxes paid were £13 million in the six months ended 30 June 2013 compared to £30 million in 2012. 2012 and 2013 payments included settlement of the 2011 and 2012 liability, respectively.

Net cash used in investing activities includes payments in respect of capital expenditure of £133 million in the six months ended 30 June 2013 and £77 million in 2012 (see Capital expenditure). 2013 includes a decrease of £10 million in short-term investments compared to a £20 million decrease in 2012, comprising cash deposits with a maturity of more than three months at inception.

Net cash flows from financing activities of £81 million in the six months ended 30 June 2013, consisted of £125 million of new borrowings (see Capital resources and refinancing) and equity dividends paid of £44 million. Net cash used in financing activities in the six months ended 30 June 2012 was £43 million, being equity dividends paid.

The increase in cash and cash equivalents was, therefore, £68 million in the six months ended 30 June 2013 compared to an increase of £29 million in 2012. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

### Capital resources and refinancing

In April 2013, we agreed a new £75 million amortising term loan facility, maturing in June 2018, with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme. This replaces £50 million of the £100 million amortising term loan facility agreed with the Green Investment Bank, signed in December 2012.

The new loan facility enhances the existing financing structure executed last year by providing additional liquidity to the Group and ensuring a smoother profile of debt maturities. Furthermore, the all-in cost of the new facility is very competitive.

The financing structure also incorporates the remaining £50 million amortising term loan from the Green Investment Bank, a £100 million amortising term loan facility with the M&G UK Companies Financing Fund and a £400 million working capital and letter of credit facility. The term loans have varying maturity profiles ranging from four to eight years, whilst the working capital and letter of credit facility is due to mature in April 2016.

In addition, a commodity trading facility also executed in December 2012, allows us to transact prescribed volumes of commodity trades at attractive prices without the requirement to post collateral. This facility has been operating well during the first half of the year, offering trading counterparties uncapped access to the security package available to our senior lenders. Combined with other steps taken over the past three years to limit our requirements to post collateral, this is allowing the Group to operate comfortably at sub-investment grade level.

### 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, strong covenant compliance and good visibility in near-term forecasts due to our progressive hedging strategy. Our Business Plan, taking account of our capital investment plans and reasonably possible changes in trading performance, shows that we should be able to operate within the level of our current banking facilities.

After considering the principal risks and uncertainties set out below, the directors are satisfied that the Group has adequate resources to continue in operational existence 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 £400 million working capital and letter of credit facility, and it is envisaged that this facility will assist in managing the cash low points in the cycle if required.

### Capital expenditure

Fixed asset additions were £138 million in the six months ended 30 June 2013 compared to £90 million in 2012.

Our biomass transformation investments remain on schedule and comprise the following expenditure to date.

	Cumulative to 31 December 2012 £m	6 months to 30 June 2013 £m	Cumulative to 30 June 2013 £m
Drax site	177.9	67.0	244.9
US pellet operations	0.8	31.4	32.2
Other supply chain	4.8	7.8	12.6
<b>Total biomass capital expenditure</b>	<b>183.5</b>	<b>106.2</b>	<b>289.7</b>

Additions in 2013 include £67 million for on-site biomass infrastructure at the Drax Power Station site. This work includes construction of new biomass fuel receipt, storage and distribution systems, sufficient to handle the 7 to 8 million tonnes of fuel per annum required for three converted units. We expect construction work on the remaining on-site infrastructure to be largely complete by the end of 2014.

A further £31 million of capital expenditure in the period relates to investment in our US-based pellet operations. We are developing two pellet plants, with a combined capacity of 900,000 tonnes of pellet production per annum, and a port facility with export capacity of up to 3 million tonnes per annum. We are targeting the first half of 2015 for commercial operations to begin at these facilities.

Expected full year capital expenditure for 2013 continues to be in the region of £250 million to £300 million, including £50 million for plant efficiency and other projects unrelated to our biomass plans.

### 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 2012 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 price risk
- Counterparty risk
- Power and renewables market liquidity risk
- Biomass market risk
- Plant operating risk
- Regulatory and political risk

### Related parties

The Group set out in its 2012 Annual report and accounts (page 122) the related party transactions arising. There have been no material changes since the Annual report and accounts were published.

## Operational and financial performance

### Positions under contract for 2013, 2014 and 2015

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO<sub>2</sub> emissions allowances and fuel purchases. Our aim is to deliver market level dark green or bark 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 22 July 2013, the commodity positions under contract for 2013, 2014 and 2015 were as set out below.

	2013	2014	2015
Power sales (TWh) comprising:	24.4	17.1	5.1
– Fixed price power sales (TWh) at an average achieved price (per MWh)	23.1 @ £51.4	14.5 @ £53.5	3.2 @ £56.1
– Fixed margin and structured power sales (TWh)	1.3	2.6	1.9
CO <sub>2</sub> emissions allowances hedged, including market purchases and structured contracts (TWh equivalent)	23.2	14.5	4.5
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	25.6	22.6	13.1

Fixed price power sales include approximately 1.3TWh supplied to Centrica in the period 1 January 2013 to 22 July 2013 under the five year 300MW baseload contract which commenced on 1 October 2010.

Fixed margin power sales include approximately 1.3TWh in 2013, 2.6TWh in 2014 and 1.9TWh in 2015, in connection with the above contract.

Under this contract the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO<sub>2</sub> emissions allowances amounting in aggregate to approximately 2.4 million tonnes in 2013 and 2014 and approximately 1.8 million tonnes in 2015.

The contract provides the Group with a series of fixed dark green spreads, with the spreads 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) in each year. Underlying earnings for the period ending 30 June 2013 were £70 million.

#### Dividends paid

On 18 February 2013, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 24 April 2013, to pay a final dividend for the year ended 31 December 2012 of 10.9 pence per share (£44 million). The final dividend was subsequently paid on 17 May 2013.

#### Dividends proposed

On 29 July 2013, the Board resolved to pay an interim dividend for the six months ended 30 June 2013 of 8.7 pence per share (£35 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 11 October 2013 and shares will be marked ex-interim dividend on 25 September 2013.

This Operational and financial performance review was approved by the Board on 29 July 2013.



**Tony Quinlan**  
Finance Director  
29 July 2013

## Directors' responsibility statement

We confirm that to the best of our knowledge:

- (a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";
- (b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and
- (c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board



**Dorothy Thompson CBE**  
Chief Executive  
29 July 2013



**Tony Quinlan**  
Finance Director  
29 July 2013

## Condensed consolidated income statement

	Notes	Six months ended 30 June		Year ended 31 December
		2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
Revenue		918.5	867.9	1,779.8
Fuel costs in respect of generation		(409.0)	(455.6)	(929.2)
Cost of power purchases		(145.6)	(57.8)	(141.7)
Grid charges		(102.4)	(81.1)	(167.8)
Other retail costs		(45.5)	(19.1)	(30.2)
Total cost of sales		(702.5)	(613.6)	(1,268.9)
<b>Gross profit</b>		<b>216.0</b>	<b>254.3</b>	<b>510.9</b>
Other operating and administrative expenses		(124.8)	(128.7)	(271.0)
Unrealised gains/(losses) on derivative contracts		122.4	21.0	(36.1)
<b>Operating profit</b>		<b>213.6</b>	<b>146.6</b>	<b>203.8</b>
Interest payable and similar charges		(9.0)	(6.4)	(15.3)
Interest receivable		1.0	1.0	1.7
<b>Profit before tax</b>		<b>205.6</b>	<b>141.2</b>	<b>190.2</b>
Tax	5	(41.7)	(20.3)	(26.4)
<b>Profit for the period attributable to equity holders</b>		<b>163.9</b>	<b>120.9</b>	<b>163.8</b>
<b>Earnings per share</b>		<b>pence</b>	<b>pence</b>	<b>pence</b>
– Basic	6	41	33	44
– Diluted	6	40	33	44

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 31 December
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Profit for the period</b>	<b>163.9</b>	120.9	163.8
Actuarial losses on defined benefit pension scheme	(2.9)	(13.7)	(9.0)
Deferred tax on actuarial losses on defined benefit pension scheme	0.7	3.3	2.1
Fair value losses on cash flow hedges	(32.9)	(0.6)	(105.7)
Deferred tax on cash flow hedges	7.6	0.9	26.0
<b>Other comprehensive expense for the period</b>	<b>(27.5)</b>	(10.1)	(86.6)
<b>Total comprehensive income for the period attributable to equity holders</b>	<b>136.4</b>	110.8	77.2

## Condensed consolidated balance sheet

		As at 30 June	As at	
	Notes	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Assets</b>				
<b>Non-current assets</b>				
Intangible assets		11.7	10.7	49.7
Property, plant and equipment		1,464.8	1,257.3	1,360.6
Derivative financial instruments		71.8	35.3	7.7
		1,548.3	1,303.3	1,418.0
<b>Current assets</b>				
Inventories		207.5	162.3	157.6
ROC and LEC assets		60.0	41.2	18.7
Trade and other receivables		169.7	179.2	224.8
Derivative financial instruments		77.2	108.8	37.6
Short-term investments		20.0	10.0	30.0
Cash and cash equivalents		439.9	231.4	371.7
		974.3	732.9	840.4
<b>Liabilities</b>				
<b>Current liabilities</b>				
Trade and other payables		282.4	258.6	275.9
Current tax liabilities		3.1	22.3	14.6
Borrowings		0.3	7.9	0.3
Derivative financial instruments		133.4	65.3	100.4
		419.2	354.1	391.2
<b>Net current assets</b>		555.1	378.8	449.2
<b>Non-current liabilities</b>				
Borrowings		214.5	0.3	90.4
Derivative financial instruments		36.3	27.2	55.2
Provisions		31.9	30.9	31.5
Deferred tax liabilities		202.4	201.3	170.7
Retirement benefit obligations		43.5	48.8	42.1
		528.6	308.5	389.9
<b>Net assets</b>		1,574.8	1,373.6	1,477.3
<b>Shareholders' equity</b>				
Issued equity		46.4	42.2	46.4
Capital redemption reserve		1.5	1.5	1.5
Share premium		422.3	420.7	420.7
Merger reserve		710.8	710.8	710.8
Hedge reserve	10	(41.7)	63.6	(16.4)
Retained profits		435.5	134.8	314.3
<b>Total shareholders' equity</b>		1,574.8	1,373.6	1,477.3

## 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 £m	Total £m
<b>At 1 January 2012</b>	<b>42.1</b>	<b>1.5</b>	<b>420.7</b>	<b>710.8</b>	<b>63.3</b>	<b>65.0</b>	<b>1,303.4</b>
Profit for the year	–	–	–	–	–	163.8	163.8
Other comprehensive expense	–	–	–	–	(79.7)	(6.9)	(86.6)
Total comprehensive (expense)/income for the year	–	–	–	–	(79.7)	156.9	77.2
Equity dividends paid	–	–	–	–	–	(95.7)	(95.7)
Issue of share capital	4.3	–	–	–	–	183.4	187.7
Movement in equity associated with share-based payments	–	–	–	–	–	4.7	4.7
<b>At 31 December 2012</b>	<b>46.4</b>	<b>1.5</b>	<b>420.7</b>	<b>710.8</b>	<b>(16.4)</b>	<b>314.3</b>	<b>1,477.3</b>
<b>At 1 January 2012</b>	<b>42.1</b>	<b>1.5</b>	<b>420.7</b>	<b>710.8</b>	<b>63.3</b>	<b>65.0</b>	<b>1,303.4</b>
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
Issue of share capital	0.1	–	–	–	–	–	0.1
<b>At 30 June 2012</b>	<b>42.2</b>	<b>1.5</b>	<b>420.7</b>	<b>710.8</b>	<b>63.6</b>	<b>134.8</b>	<b>1,373.6</b>
<b>At 1 January 2013</b>	<b>46.4</b>	<b>1.5</b>	<b>420.7</b>	<b>710.8</b>	<b>(16.4)</b>	<b>314.3</b>	<b>1,477.3</b>
Profit for the period	–	–	–	–	–	163.9	163.9
Other comprehensive expense	–	–	–	–	(25.3)	(2.2)	(27.5)
Total comprehensive (expense)/income for the period	–	–	–	–	(25.3)	161.7	136.4
Equity dividends paid	–	–	–	–	–	(43.8)	(43.8)
Movement in equity associated with share-based payments	–	–	–	–	–	3.3	3.3
Issue of share capital	–	–	1.6	–	–	–	1.6
<b>At 30 June 2013</b>	<b>46.4</b>	<b>1.5</b>	<b>422.3</b>	<b>710.8</b>	<b>(41.7)</b>	<b>435.5</b>	<b>1,574.8</b>

## Condensed consolidated cash flow statement

		Six months ended 30 June		Year ended 31 December
	Notes	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Cash generated from operations</b>	11	<b>129.3</b>	162.9	263.2
Income taxes paid		<b>(13.2)</b>	(30.2)	(50.6)
Other losses		<b>(0.2)</b>	(0.5)	(0.8)
Interest paid		<b>(5.8)</b>	(4.6)	(10.6)
Interest received		<b>0.8</b>	1.0	1.9
<b>Net cash from operating activities</b>		<b>110.9</b>	128.6	203.1
<b>Cash flows from investing activities</b>				
Purchases of property, plant and equipment		<b>(133.2)</b>	(76.8)	(206.0)
Short-term investments	8	<b>10.0</b>	20.0	–
<b>Net cash used in investing activities</b>		<b>(123.2)</b>	(56.8)	(206.0)
<b>Cash flows from financing activities</b>				
Equity dividends paid	7	<b>(43.8)</b>	(43.1)	(95.7)
Proceeds from issue of share capital		<b>1.7</b>	–	187.7
Repayment of borrowings		<b>(0.1)</b>	(0.1)	(10.5)
New borrowings		<b>125.0</b>	–	100.0
Other financing costs paid		<b>(2.3)</b>	–	(9.7)
<b>Net cash from/(used in) financing activities</b>		<b>80.5</b>	(43.2)	171.8
<b>Net increase in cash and cash equivalents</b>	8	<b>68.2</b>	28.6	168.9
Cash and cash equivalents at beginning of the period		<b>371.7</b>	202.8	202.8
<b>Cash and cash equivalents at end of the period</b>		<b>439.9</b>	231.4	371.7

## 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 2012 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 29 July 2013.

#### Adoption of new and revised accounting standards

In 2012, a number of new standards and interpretations became effective as noted in the 2012 Annual report and accounts (page 89). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

Since the 2012 Annual report and accounts was published no significant new standards and interpretations have been issued. The following new and revised standards became effective during 2013:

- 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.
- IAS 19 (revised) "Employee benefits" – effective for accounting periods beginning on or after 1 January 2013.

The adoption of these standards has not had 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 2012.

## Notes to the condensed consolidated financial statements

### 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 Drax Power Station.
- Retail – the supply of electricity to retail customers in the small and medium enterprises 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 2013:

	Six months ended 30 June 2013 (Unaudited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
<b>Revenue</b>				
External sales	595.7	322.8	–	918.5
Inter-segment sales	189.2	–	(189.2)	–
Total revenue	784.9	322.8	(189.2)	918.5
<b>Result</b>				
Segment EBITDA	120.6	(0.6)	–	120.0
<b>Central costs</b>				
Depreciation and amortisation				(28.8)
Unrealised gains on derivative contracts				122.4
<b>Operating profit</b>				213.6
Net finance costs				(8.0)
<b>Profit before tax</b>				205.6

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
<b>Revenue</b>				
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
<b>Result</b>				
Segment EBITDA	156.8	(3.0)	–	153.8
<b>Central costs</b>				
Depreciation and amortisation				(28.2)
Unrealised gains on derivative contracts				21.0
<b>Operating profit</b>				146.6
Net finance costs				(5.4)
<b>Profit before tax</b>				141.2

The following is an analysis of the Group's results by reporting segment in the year ended 31 December 2012:

	Year ended 31 December 2012 (Audited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
<b>Revenue</b>				
External sales	1,328.4	451.4	–	1,779.8
Inter-segment sales	301.6	–	(301.6)	–
Total revenue	1,630.0	451.4	(301.6)	1,779.8
<b>Result</b>				
Segment EBITDA	303.0	(4.6)	–	298.4
<b>Central costs</b>				
Depreciation and amortisation				(58.5)
Unrealised losses on derivative contracts				(36.1)
<b>Operating profit</b>				203.8
Net finance costs				(13.6)
<b>Profit before tax</b>				190.2

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. The revenue and results of both segments are subject to seasonality as detailed in the Operational and financial performance review.

### Major customers

Total revenue for the six months ended 30 June 2013 includes £106.3 million derived from one customer (2012: £217.5 million derived from one customer), representing 10% or more of the Group's revenue for the period.

## Notes to the condensed consolidated financial statements

## 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.

## Changes in the rate of corporation tax

Following the announcement of the 2012 Budget, the Finance Act 2012 (the "Act") was enacted by Parliament in July 2012. The Act confirmed reductions in the rate of corporation tax from 26% to 24% from April 2012, and from 24% to 23% from April 2013.

In the 2013 Budget, the Government proposed reductions in the rate of corporation tax from 23% to 21% from 1 April 2014, and a further reduction in corporation tax to 20% from 1 April 2015. These reductions have not been recognised in the condensed consolidated financial statements as they had not been substantively enacted at the balance sheet date.

	Six months ended 30 June		Year ended 31 December
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Tax charge comprises:</b>			
Current tax	1.7	18.4	31.4
Deferred tax:			
– Before impact of corporation tax rate change	40.0	9.5	10.1
– Impact of corporation tax rate change	–	(7.6)	(15.1)
<b>Tax charge</b>	<b>41.7</b>	<b>20.3</b>	<b>26.4</b>

## 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.

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	
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
Earnings:			
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	163.9	120.9	163.8
After tax impact of unrealised gains and losses on derivative contracts	(94.2)	(15.3)	29.0
Underlying earnings attributable to equity holders of the Company	69.7	105.6	192.8



	Six months ended 30 June		Year ended 31 December
	2013 (Unaudited)	2012 (Unaudited)	2012 (Audited)
<b>Number of shares:</b>			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	402.0	364.9	371.7
Effect of dilutive potential ordinary shares under share plans	3.4	3.6	3.5
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	405.4	368.5	375.2
Earnings per share – basic (pence)	41	33	44
Earnings per share – diluted (pence)	40	33	44
Underlying earnings per share – basic (pence)	17	29	52
Underlying earnings per share – diluted (pence)	17	29	51

## 7. Dividends

	Six months ended 30 June		Year ended 31 December
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):</b>			
Final dividend for the year ended 31 December 2012 of 10.9 pence per share paid 17 May 2013	43.8	–	–
Interim dividend for the year ended 31 December 2012 of 14.4 pence per share paid 12 October 2012	–	–	52.6
Final dividend for the year ended 31 December 2011 of 11.8 pence per share paid 11 May 2012	–	43.1	43.1
	43.8	43.1	95.7

On 29 July 2013, the Board resolved to pay an interim dividend for the six months ended 30 June 2013 of 8.7 pence per share (equivalent to approximately £35 million) on or before 11 October 2013. The interim dividend of 8.7 pence per share has not been included as a liability as at 30 June 2013.

## 8. Net cash

	As at 30 June		As at 31 December
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Net cash at 1 January</b>	311.0	225.2	225.2
Increase in cash and cash equivalents	68.2	28.6	168.9
Decrease in short-term investments	(10.0)	(20.0)	–
Increase in net borrowings	(124.1)	(0.6)	(83.1)
<b>Net cash at period end</b>	245.1	233.2	311.0

## Notes to the condensed consolidated financial statements

## 8. Net cash (continued)

## Refinancing

As set out in our latest Annual report and accounts, in December 2012, we completed the refinancing of our revolving credit facilities which were due to mature in April 2014. This facility was replaced with a larger £400 million revolving credit facility which matures in April 2016 and can be used for both letters of credit and working capital purposes. In addition to this facility we executed two new committed term loans of £100 million each with the Prudential M&G UK Companies Financing Fund and the UK Green Investment Bank. The loans have six to eight year maturities. At the same time as concluding the financing arrangements above, we also executed a commodities trading line, which allows trading counterparties to benefit from the security package offered to senior lenders rather than Drax posting collateral for certain volumes of trades. The Prudential M&G UK Companies Financing Fund loan was fully drawn down at the year end.

On 24 April 2013, we announced that we had agreed a £75 million amortising loan facility maturing in June 2018 with Friends Life, underpinned by a guarantee from HM Treasury issued under the Infrastructure UK Guarantee Scheme. This replaces £50 million of the £100 million amortising loan facility agreed with the UK Green Investment Bank, signed in December 2012.

The remaining £50 million UK Green Investment Bank loan and the £75 million Friends Life loan were fully drawn down on 29 and 30 April 2013, respectively.

## 9. Financial instruments

The Group's financial instruments consist of borrowings, cash and liquid resources, items that arise directly from its operations and derivative contracts. Cash and cash equivalents, short-term investments, trade and other receivables and trade and other payables generally have short times to maturity. For this reason, their carrying values approximate fair value. The Group's borrowings relate principally to amounts drawn down against term loans, the carrying amounts of which approximate their fair values by virtue of being floating rate instruments.

The fair values of the Group's derivative financial instruments which are marked-to-market and recorded in the balance sheet were as follows:

	As at 30 June 2013    As at 31 December 2012		
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Assets</b>			
Commodity contracts	46.7	125.2	35.4
Forward foreign currency exchange contracts	102.3	18.9	9.9
	149.0	144.1	45.3
<b>Liabilities</b>			
Commodity contracts	(150.5)	(71.9)	(84.8)
Forward foreign currency exchange contracts	(19.2)	(20.6)	(70.8)
	(169.7)	(92.5)	(155.6)

As described in full in our latest Annual report and accounts, the fair value of commodity contracts and forward foreign currency exchange contracts is largely determined by comparison between forward market prices and the contract price, therefore these contracts have been grouped into Level 2 within the fair value hierarchy in their entirety.

The Group has no financial instruments with fair values derived solely from unadjusted quoted prices (Level 1) or unobservable inputs (Level 3). There have been no transfers of any assets or liabilities between levels of the fair value hierarchy during the current or preceding period.

## 10. 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 2013 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(40.9)	(5.3)	0.2	(46.0)
Forward foreign currency exchange contracts	3.5	(0.1)	0.9	4.3
	(37.4)	(5.4)	1.1	(41.7)

	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 December 2012 (Audited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(11.6)	(3.7)	–	(15.3)
Forward foreign currency exchange contracts	(0.9)	(0.2)	–	(1.1)
	(12.5)	(3.9)	–	(16.4)

## Notes to the condensed consolidated financial statements

## 11. Cash generated from operations

	Six months ended 30 June		Year ended 31 December
	2013 (Unaudited) £m	2012 (Unaudited) £m	2012 (Audited) £m
<b>Profit for the period</b>	<b>163.9</b>	120.9	163.8
Adjustments for:			
Interest payable and similar charges	9.0	6.4	15.3
Interest receivable	(1.0)	(1.0)	(1.7)
Tax charge (note 5)	41.7	20.3	26.4
Depreciation and amortisation	28.8	28.2	58.5
Unrealised (gains)/losses on derivative contracts	(122.4)	(21.0)	36.1
Defined benefit pension scheme charge	2.9	2.9	5.7
Non-cash charge for share-based payments	3.3	2.4	4.7
<b>Operating cash flows before movement in working capital</b>	<b>126.2</b>	159.1	308.8
<b>Changes in working capital:</b>			
Increase in inventories	(49.9)	(24.6)	(19.9)
Decrease in receivables	55.2	90.1	44.5
Increase/(decrease) in payables	6.4	(47.3)	(33.9)
Total decrease/(increase) in working capital	11.7	18.2	(9.3)
Decrease/(increase) in carbon assets	38.0	–	(39.0)
(Increase)/decrease in ROC and LEC assets	(41.3)	(9.1)	13.4
Defined benefit pension scheme contributions	(5.3)	(5.3)	(10.7)
<b>Cash generated from operations</b>	<b>129.3</b>	162.9	263.2

## 12. Contingent liabilities

## Community Energy Saving Programme

Drax Power Limited ("Drax Power") was obliged under the Electricity and Gas (Community Energy Saving Programme) Order 2009 ("CESP") to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain during the period 1 October 2009 to 31 December 2012 (the "Obligation period"). Drax Power's obligation was to deliver 895,138 lifetime tonnes of CO<sub>2</sub> savings. It entered into an agreement with a third party, pursuant to which the third party was obliged to deliver its CESP obligation, for a total cost of £17 million. The third party has failed to comply fully with its obligation under the agreement, leaving a significant shortfall against the CESP obligation. Drax Power intends to commence legal proceedings for breach of contract against the third party.

Drax Power entered into further agreements with additional third parties in order to rectify this shortfall so far as practicable. Having taken account of the additional measures under those arrangements, the Office of Gas and Electricity Markets ("Ofgem") announced in May 2013 that Drax Power had achieved 37.1% of its CESP target at the end of the Obligation period. At the same time Ofgem also announced that it was launching an investigation into those companies that had failed to achieve their energy efficiency targets, including Drax Power.

The Gas and Electricity Markets Authority ("the Authority") is the enforcement authority in relation to CESP. Subject to the findings of Ofgem's investigation, it will produce a statement of case or decide that there is no case to answer. In the case of the former, a recommendation to an enforcement committee of the Authority will be made on enforcement action. The Authority has wide powers of enforcement, including issuing a penalty or other means of enforcement. Ofgem has also indicated that a settlement committee of the Authority will be established to consider proposals made by obligated parties to settle investigations.

Representatives of Drax Power had an initial meeting with the Ofgem enforcement team in June 2013, following which it has received a formal information request. Drax Power will co-operate fully with the investigation. At this stage, it is not possible to predict accurately what, if any, enforcement action may be taken.

In the absence of any communication on enforcement subject to the findings of the investigation, it is not practicable to measure reliably the financial impact, if any. Accordingly, no provision has been recognised within these condensed consolidated financial statements in relation to this matter.

## 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 2013 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 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company, for our review work, for this report, or for the conclusions we have formed.

### Directors' responsibilities

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

As disclosed 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 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

The logo for Deloitte LLP, featuring the word "Deloitte" in a stylized blue script font, followed by "LLP" in a smaller, blue, sans-serif font.

Deloitte LLP

Chartered Accountants and Statutory Auditor  
London, United Kingdom

29 July 2013

## 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 CO<sub>2</sub> 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 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 CO<sub>2</sub>; the scheme is capable of being extended to cover all greenhouse gas emissions.

### Forced outage

Any reduction in plant availability, excluding planned outages and restrictions arising from fuel and logistics constraints.

### Forced outage rate

The capacity which is not available due to Forced outages 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.

## 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 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, excluding the periods during which units are undergoing conversion to become biomass-fuelled.

### 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, 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:

+44 (0)1757 618381

#### By fax:

+44 (0)1757 612192

#### By e-mail:

[enquiries@drax.com](mailto:enquiries@drax.com)

#### Company website:

[www.drax.com](http://www.drax.com)

### 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	25 September
Record date for entitlement to the interim dividend	27 September
Payment of the interim dividend (8.7 pence per share)	11 October
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.

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## Notes

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