

Regulatory Story

[Go to market news section](#)

Drax Group PLC - DRX Half-year Report
Released 07:00 24-Jul-2019



RNS Number : 4899G
Drax Group PLC
24 July 2019

24 July 2019

DRAX GROUP PLC (Symbol: DRX)
HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2019
Strong earnings, dividend and cash flow; full year expectations unchanged

Six months ended 30 June	H1 2019	H1 2018 (restated) (1)
Key financial performance measures		
Adjusted EBITDA (£ million) ⁽²⁾⁽³⁾	138	102
Net cash from operating activities (£ million)	197	112
Net debt (£ million) ⁽⁴⁾	924	366
Interim dividends (pence per share)	6.4	5.6
Adjusted basic earnings per share (pence) ⁽²⁾	2.0	1.6
Total financial performance measures		
Operating profit (£ million)	34	12
Profit / (loss) before tax (£ million)	4	(11)
Basic earnings / (loss) per share (pence)	1.0	(1.0)

Financial highlights

- Group Adjusted EBITDA up 35% to £138 million (H1 2018: £102 million)
 - Includes £36 million from acquired Hydro and Gas assets
 - Excludes £34 million of capacity payments (H1 2018: £6 million recognised) - expect Capacity Market to be re-established in 2019
- Sustainable and growing dividend
 - Interim dividend up 12.5% to £25 million (6.4 pence per share) (H1 2018: £22 million, 5.6 pence per share)
 - Expected 2019 full year dividend up 12.5% to £63 million (15.9 pence per share) (2018: £56 million)
- Good progress with refinancing of acquisition bridge facility, continue to expect completion during 2019
 - On track to deliver 2x net debt / Adjusted EBITDA by year end, assuming reinstatement of the Capacity Market

Operational highlights

- Integration of acquired Hydro and Gas assets progressing well
- Strong system support performance - 92% increase in value from flexibility⁽⁵⁾ - £69 million (H1 2018: £36 million)
- Progress with biomass cost reduction - LaSalle sawmill co-location and rail spur operational
- 52% reduction in reported carbon emissions - 128tCO₂/GWh (H1 2018: 265tCO₂/GWh)

Progress with strategic initiatives

- Planned expansion of biomass self-supply - 0.35Mt of new capacity and lower cost biomass
- Development of options for BECCS⁽⁶⁾ - potential for large-scale carbon negative generation at Drax Power Station
- Planning approval for third OCGT⁽⁷⁾ received, expect fourth OCGT and coal-to-gas CCGT⁽⁸⁾ approval in 2019

Outlook

- Full year EBITDA and net debt expectations unchanged; remain subject to re-establishment of Capacity Market
 - Generation - strong contracted position and system support services, higher H2 biomass generation
 - Pellet Production - growth in H2 pellet volumes, focus on cost reduction and improved quality
 - Customers (formerly B2B Energy Supply) - focus on increasing gross profit, reducing bad debt and cost to serve
- Attractive investment options for growth: biomass capacity expansion, cost reduction and new gas generation

Will Gardiner, Chief Executive of Drax Group said: "Drax Group has delivered strong profit and dividend growth in the first half of the year. Integration of our new Hydro and Gas generation assets is progressing well and the value the Group delivers from supporting the energy system has almost doubled. Drax is supporting British business with innovative new energy services and, despite challenging market conditions, our Customers business continues to grow. Our biomass cost reduction initiative and plans for expanded biomass self-supply are going well.

"Drax wholeheartedly supports the UK's target of achieving net zero carbon emissions by 2050. Reducing our greenhouse gas emissions by half in the past year underscores Drax's commitment to this goal. With the right investment and regulatory framework we could go further and Drax could become the world's first carbon negative power station - something the UK Committee on Climate Change recognises will be crucial."

Operational review

Pellet Production - Focus on capacity expansion with good quality pellets at lowest cost

- Adjusted EBITDA of £8 million (H1 2018: £10 million)
 - Pellet production 0.65Mt (H1 2018: 0.66Mt) - weather-affected forestry activities and lower pellet production
- Good progress with cost reduction initiatives
 - Initiatives for run rate savings of £10/MWh on 0.45Mt pa from LaSalle pellet plant
 - Rail spur operational May 2019 - reduction in transport cost to Port of Baton Rouge
 - Co-location agreement with Hunt Forest Products for low-cost sawmill residues, now operational
 - Port of Baton Rouge rail agreement - increased rail capacity and lower costs for LaSalle and Morehouse
 - Capacity expansion with run rate savings of £20/MWh on 0.35Mt
 - £50 million investment in 0.35Mt capacity increase at LaSalle, Morehouse and Amite, commissioning 2020/21
 - Pellet and hammermill upgrades to enable greater utilisation of low-cost sawmill residues and dry shavings

Power Generation - Flexible, low-carbon and renewable generation

- Adjusted EBITDA of £148 million (H1 2018: £88 million)
 - Contribution of Hydro and Gas assets following acquisition from ScottishPower - £36 million
 - Strong system support performance - 92% increase in value from flexibility⁽⁵⁾ - £69 million (H1 2018: £36 million)
 - Suspension of Capacity Market - £34 million of H1 revenue not accrued (H1 2018: £6 million recognised)
- Biomass output (net sales) up 2% to 6.4TWh (H1 2018: 6.3TWh)
 - ROC⁽⁹⁾ generation reprofiled to reflect weather-affected US biomass supplies - optimise within ROC cap and utilise fourth biomass unit to produce expected higher levels of ROC generation in H2 2019
- Lower thermal output
 - Coal - higher carbon costs, lower margins and reduced output - buy back opportunities for hedged sales
 - Gas - Damhead Creek restricted hours ahead of inspection and Shoreham interim inspection brought forward

Customers - Continued growth in meters and margin per MWh, implementing structure to support long-term growth

- Adjusted EBITDA of £9 million (H1 2018: £16 million)
 - Increased operating costs associated with integration, restructuring and development of next generation system

- Weather-related reduction in energy consumption and increased focus on margin per MWh
- Continued growth in gross profit per MWh
- Growth in customer meters to 405,000 (H2 2018: 396,000)
- Improvement in bad debt £13 million (H1 2018: £18 million)
- Progressing with integration of Opus and Haven
- Focused on creation of scalable platform for growth, improved gross margin, reduction in bad debt and cost to serve

Group financial information

- Tax rate benefits from Patent Box claims - Corporation Tax rate of 10% on profits arising from the use of biomass innovation
- Capital investment of £60 million, full year expectations unchanged (£170 - £190 million)
 - Includes 0.35Mt of new low-cost US pellet capacity (£10 million in 2019 and £40 million in 2020/21)
- Net debt of £924 million, including cash and cash equivalents of £244 million (31 December 2018: £289 million)
 - Expect 2x net debt to Adjusted EBITDA by end of 2019 subject to re-establishment of Capacity Market

Notes:

- (1) H1 2018 restated to reflect adoption of IFRIC guidance issued in respect of derivative contract accounting consistent with the approach taken in the 2018 Annual Report.
- (2) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements.
- (3) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
- (4) Borrowings less cash and cash equivalents (see note 12 to condensed consolidated interim financial statements).
- (5) Balancing Market, Ancillary Services and lower-cost coals.
- (6) BioEnergy Carbon Capture and Storage.
- (7) Open Cycle Gas Turbine.
- (8) Combined Cycle Gas Turbine.
- (9) Renewable Obligation Certificate.

Forward Looking Statements

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

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

~~~~~

### Results presentation meeting and webcast arrangements

Management will host a presentation for analysts and investors at 9:00am (UK Time), Wednesday 24 July 2019, at **JP Morgan, 60 Victoria Embankment, London, EC4Y 0JP**.

Would anyone wishing to attend please confirm by e-mailing [Rosie.Corbett@fticonsulting.com](mailto:Rosie.Corbett@fticonsulting.com) or calling Rosie Corbett at FTI Consulting on +44 (0)20 3727 1718.

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

A copy of the presentation will be made available from 7:00am (UK time) on Wednesday 24 July 2019 for download at: [www.drax.com](http://www.drax.com/investors/results-reports-agm/#investor-relations-presentations)>>investors>>results-reports-agm>> #investor-relations-presentations or use the link <https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations>

|                         |                                                                                                                                                                                                       |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Event Title:            | Drax Group plc: Half Year Results                                                                                                                                                                     |
| Event Date:             | Wednesday 24 July 2019                                                                                                                                                                                |
|                         | 9:00am (UK time)                                                                                                                                                                                      |
| Webcast Live Event Link | <a href="https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7468/114967/Lobby/default.htm">https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7468/114967/Lobby/default.htm</a> |
|                         |                                                                                                                                                                                                       |

|               |                                                                                                                                                                                                       |
|---------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Start Date:   | Wednesday 24 July 2019                                                                                                                                                                                |
| Delete Date:  | Wednesday 22 July 2020                                                                                                                                                                                |
| Archive Link: | <a href="https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7468/114967/Lobby/default.htm">https://webcast.merchantcantoscdn.com/webcaster/dyn/4000/7464/7468/114967/Lobby/default.htm</a> |

For further information please contact Rosie Corbett on +44 (0)20 3727 1718.

|          |                                                |
|----------|------------------------------------------------|
| Website: | <a href="http://www.drax.com">www.drax.com</a> |
|----------|------------------------------------------------|

# Business Review

## Summary of H1 2019

We have continued to make good progress with the delivery of our purpose, to enable a zero carbon lower cost energy future, most notably through the acquisition of a portfolio of flexible, low-carbon and renewable Hydro and Gas generation assets from ScottishPower, which was completed in December 2018. Integration is progressing well and we have been pleased with the performance of these assets, which we expect to deliver high quality earnings and financial returns significantly ahead of the Group's cost of capital.

Group Adjusted EBITDA of £138 million represents a 35% increase on the first half of 2018 ('the Prior Period') and excludes any Capacity Market income during the period.

The US Gulf experienced high levels of rainfall in early 2019, leading to lower levels of wood pellet production and consequently lower levels of UK biomass generation in the first six months of 2019 on those units earning Renewable Obligation Certificates (ROCs). We expect to partially offset this by producing higher levels of generation across the three ROC units in the second half of 2019. The flexibility provided by the ROC scheme allows us to maximise biomass generation, within an annual cap, in the periods where we see best value. This allows us to produce a greater amount of renewable power at times of high demand, which are typically periods of higher carbon intensity.

The benefit of a broader generation base has been evident in the period. In particular, hydro operations have performed strongly in the provision of system support services, which are not exposed to commodity price fluctuations. Non-commodity exposed earnings represent over two-thirds of the earnings of the acquired Hydro and Gas assets. This is an area we expect to grow in future years, due to increasing levels of intermittent renewable generation and the retirement of older thermal plant which, historically, supported the power system.

Our Customers business (formerly B2B Energy Supply) has continued to grow, increasing customer meters by 9,000 in the first six months of the year. Gross profit per MWh has increased, although lower MWh sales and additional costs associated with growth, integration and restructuring have led to a lower Adjusted EBITDA in the first half of 2019.

Our expectations for full year Group Adjusted EBITDA and net debt remain unchanged, assuming the re-establishment of the Capacity Market in 2019. Our ability to deliver increasing stability of earnings reflects a strong contracted position, increased levels of non-commodity exposed earnings and mitigated operational risk by operating as a portfolio generator.

We expect to propose a dividend for the 2019 financial year of £63 million, a 12.5% increase on 2018, consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers an increasing proportion of stable earnings and cash flows. As has been our practice since we initiated the policy in 2017, 40% of the expected full year dividend will be paid for the first six months of 2019 (£25 million, 6.4 pence per share).

Total Recordable Injury Rate (TRIR), our primary safety measure, was 0.30 (Prior Period: 0.18). We are working to deliver improvements, learning from incidents in order to inform practices, policies and training. In particular, during 2018 we experienced a serious injury at one of our US pellet plants and during the first half of the year we have been working hard on process safety to improve performance in this critical area.

The Group's purpose of enabling a zero carbon lower cost energy future is strongly aligned with the UK's objective of net zero carbon emissions by 2050, which informs our strategic projects. During the first half of the year we have focused on options to expand capacity and reduce the cost of biomass self-supply, new gas generation and BioEnergy Carbon Capture and Storage (BECCS) projects which will be required to deliver net zero carbon emissions.

## Operational review

In the US, our **Pellet Production** operations saw Adjusted EBITDA of £8 million (Prior Period: £10 million).

In the first half of 2019 the level of pellets produced was lower versus the Prior Period, reflecting high levels of rainfall in the US Gulf, which restricted the level of commercial forest extraction, restricted wood pellet production and impacted the shipment of pellets out of the port of Baton Rouge. In recent months both commercial forestry processes and pellet production have increased.

We made progress in reducing the level of fines (smaller particles of wood pellet material). High levels of fines lead to higher levels of dust, which can create health and safety risks throughout the supply chain.

We remain focused on opportunities to expand capacity and use a greater proportion of the very cheapest wood residues.

A co-location agreement with Hunt Forest Products (a sawmill operator) led to the development of a sawmill next to our LaSalle site. The site is now operational and is allowing us to access a greater proportion of low-cost sawmill residues, reducing transportation cost and the number of steps in the production process.

A new rail spur linking LaSalle to the regional rail network and our port facility at Baton Rouge was commissioned in May. This will increase transportation efficiency, provide economies of scale and reduce both cost and carbon footprint.

We expect to benefit from further economies of scale in rail associated with the commissioning of an enlarged chambering yard at the port of Baton Rouge, allowing 80-car train sets to operate from our LaSalle and Morehouse sites.

Our goal is to make biomass power generation economically viable without direct support by 2027. In pursuit of this goal, we continue to evaluate opportunities to increase capacity and have identified plans to expand our existing three sites, LaSalle, Morehouse and Amite, by 350,000 tonnes over the next two years - an investment of £50 million. This will expand total capacity to around 1.85Mt, provide economies of scale and allow even greater utilisation of low-cost residues. These projects support a long-term role for biomass generation by reducing cost while delivering an attractive return on capital, with payback in advance of 2027.

In **Generation**, the portfolio has performed well with Adjusted EBITDA of £148 million, up 68% versus the first half of 2018 (£88 million).

During the Period we completed two planned biomass unit outages, including the unit which was converted to biomass in 2018 under the ROC scheme. The operational experience with this low-cost conversion has been encouraging. In the second half of 2019 we expect to complete a more substantial major planned outage on a second unit operating under the ROC scheme. This will include a high-pressure turbine upgrade which we expect to enhance efficiency and reduce the cost of production.

In December 2018 we completed the acquisition of a portfolio of Hydro and Gas assets from ScottishPower. We have been pleased with the performance of the assets, the opportunities to optimise generation across a portfolio and the operational resilience they provide.

Cruachan pumped storage power station, the principal asset in the acquisition, has performed very well, capturing significant value in the system support market. Over 80% of Cruachan's earnings are from non-commodity sources, including Balancing Market activities, Ancillary Services and the Capacity Market. With growth in wind generation, we expect to see a long-term role for hydro, which is not related to the underlying price of electricity but rather system need.

Since the start of 2019 seasonal electricity prices have weakened, reflecting a mild winter and high levels of European gas storage. The market for coal generation has remained challenging and our two coal units continue to focus on short-term power market opportunities during higher demand periods. Where we have sold forward volumes on a limited basis, the weaker power price has allowed us to buy back those volumes at a lower price, adding margin. We continue to expect coal generation to cease by 2025.

Electricity from ROC biomass generation is forward sold up to two years. This means that, combined with index-linked renewable support, these assets are not exposed to power prices as a merchant generator would be. Combined with our focus on biomass cost reduction this also offers an attractive long-term opportunity for margin expansion.

We believe there is a need for flexible, large-scale dispatchable generation, but this must support the UK's target of net zero carbon emissions by 2050. We believe new-build gas generation is consistent with that goal and a necessary transitional technology. To that end we are making progress with the development of options for four 299MW Open Cycle Gas Turbines (OCGTs) and up to 3.6GW of Combined Cycle Gas Turbine (CCGT) coal-to-gas repowering at Drax Power Station. As part of the acquisition of Hydro and Gas generation assets, the Group also acquired a permitted option for the development of a 1.8GW CCGT at Damhead Creek.

We expect these new CCGTs to be among the most efficient assets in their class and hence sit high in the UK merit order, in addition to being available for system support services. The OCGTs will perform a system support role in addition to meeting peak power demand at short notice. We remain committed to developing the most cost-effective capital programmes for all of our gas projects, which we believe can make them competitive in future capacity auctions.

An appropriate level of support for new-build gas in a future Capacity Market is required to underpin investment through a 15-year index-linked capacity agreement, providing a clear investment signal and extending visibility of

our contract-based earnings to the late 2030s.

The flexibility and dispatchable nature of our generation portfolio is an important source of value and was a key factor in our acquisition of the Hydro and Gas assets. Given the structural shift in UK generation towards intermittent renewables, we anticipate a growing need for system support services and a value opportunity for assets which can meet this need. In the first half of 2019, Value from Flexibility (a measure which includes system support) was £69 million, a 92% increase versus the Prior Period.

In April, the Committee on Climate Change proposed a target of net zero carbon dioxide emissions by 2050, which the UK Government subsequently adopted and for which it is legislating. The Committee noted that this target could only be achieved with BECCS developed to scale. Drax is positioned to respond and can perform two functions; firstly, the flexibility of biomass generation supports the energy system and enables greater deployment of intermittent renewables; and secondly, combined with carbon capture and storage, we believe biomass is uniquely placed to offer large-scale carbon negative generation.

To support this process we are conducting low-cost pilot projects looking at potential technology applications for BECCS using organic solvents and fuel cells.

The establishment of a large-scale BECCS system will require the right level of regulatory and political support in addition to an appropriate long-term financial mechanism. To support that process, in May, we joined with National Grid and Equinor to advocate for a framework to support the development of a carbon cluster in the Humber region, the UK's highest carbon intensity area.

Our **Customers** business has continued to grow meter numbers during the period. The total level of energy sold was down versus the first half of 2018, reflecting mild winter weather and greater focus on margin per MWh which has increased.

We have seen further improvements in our management of bad debts during the period, with a bad debt expense of £13 million (Prior Period: £18 million). There is more to do to maintain progress in the second half of the year and this continues to be an area of focus.

Underlying costs remain in line with our expectations and we are focused on creating a scalable operating platform which can reduce our cost to serve customers. We believe this will be an important source of competitive advantage, supporting customer meter growth and a higher margin per MWh.

Taking these factors together, Adjusted EBITDA of £9 million is lower than the first half of 2018 (£16 million).

The creation of a single management team across our Haven and Opus businesses is progressing well and will help drive alignment of decision making, effective market segmentation and operational efficiencies.

A new ERP system (finance, procurement and financial reporting) has now been successfully implemented in our Haven business, but we have experienced some challenges and delays in relation to the implementation of the new customer care and billing platform. As a result, we are considering how best to move forward with the implementation at our Haven business and are separately also exploring alternative solutions for the rest of the Customers business, including looking at cloud-based systems that are now becoming available. We will take the time to ensure this process is delivered properly and with no disruption to our customers and, as such, we expect the project to be rolled out over an extended time horizon.

## Capacity Market

We believe that the Capacity Market is a cornerstone of energy policy, a cost-effective safeguard for security of supply and necessary to underpin the development of new generation projects.

Following the Court of Justice of the European Union declaration that the process used by the European Commission to approve the UK Capacity Mechanism was not valid and the subsequent suspension of the market by the UK Government, the European Commission commenced a formal investigation (March 2019). The investigation is narrow in scope, reflecting the European Commission's comfort with most of the original decision. We therefore believe that the Capacity Market can be re-established on the same or similar terms.

In our Generation business we have continued to meet our obligation and provide capacity but did not receive or accrue the revenue expected from this activity during the first half of the year. In our Customers business we provided for all costs associated with the Capacity Market. Our approach was based on continuing to include charges in customer bills, with cash collected from those customers during the period. Once the Capacity Market is re-established the cash will be paid to Elexon, as the collection agent, and held in escrow pending payment to generators. The net impact across the Group in the first half of the year was a loss to Adjusted EBITDA of £34 million. We continue to expect the issue to be resolved during the second half of 2019, with retrospective payments to be made to generators and reflect this in our expectations for the year. Once the market is re-established, we expect to receive income from the Capacity Market of £68 million in 2019, plus a further £7 million in relation to the end of 2018.

## Environmental, social and governance

The health, safety and wellbeing of our employees and contractors is vital to the success of the Group and remains our priority. We believe that a safe and sustainable business model is critical to the delivery of our strategy and crucial for long-term performance.

We have continued to maintain our rigorous and robust approach to biomass sustainability, ensuring the wood pellets we use are fully compliant with the UK's mandatory sustainability standards. The biomass we use to generate renewable power provides an 86% carbon emission saving against coal, inclusive of supply chain emissions. Our biomass life cycle carbon emissions are 124kgCO<sub>2</sub>e/MWh of electricity, less than half the UK Government's 285 kgCO<sub>2</sub>e/MWh limit.

Biomass generation between October 2018 and March 2019 accounted for 11% of the UK's renewable electricity. Reflecting this and a lower level of coal generation, reported carbon emissions under the EU ETS fell by 52% to 128tCO<sub>2</sub>/GWh (Prior Period: 265tCO<sub>2</sub>/GWh).

Strong corporate governance is crucial and a key part of this is the important role our non-executive directors play. The Board is composed of nine members, six of whom (including our Chairman) are non-executives, an executive/non-executive balance compliant with the UK Corporate Governance Code.

During the first half of 2019 we saw several changes to the Board. David Lindsell and Tony Thorne have each stepped down, having served ten years and nine years respectively. John Baxter joined the Board as a non-executive director in April 2019. Tim Cobbold will step down in September 2019, at which point he will have served nine years.

## Outlook

Financially our expectations for 2019 remain unchanged, driven by a strong contracted position, the surety of operations afforded by our portfolio of assets, system support services, good biomass operations and the reinstatement of the Capacity Market in 2019.

In Generation we will continue to integrate our portfolio of flexible, low-carbon and renewable generation assets and extract value from the provision of system support services.

We believe that biomass has an important role to play and that our proposition is strong - reliable, flexible, low-carbon renewable electricity and system support services which, combined with an effective fuel hedging strategy, will provide long-term earnings visibility. Linked to this, an important objective is to increase supply chain efficiency and reduce costs to make biomass competitive beyond 2027.

We believe that flexible dispatchable generation, including gas, has an important long-term role to play in supporting the transition to a net zero carbon economy. We will optimise our portfolio to meet this demand and develop new project options, subject to the right price in future capacity auctions.

In Pellet Production we remain focused on the production of good quality pellets at the lowest cost, cross-supply chain optimisation and the development of options for low-cost self-supply. We expect to deliver further cost savings in the second half of 2019 and progress plans for capacity expansion at our existing sites.

In our Customers business we are focused on reducing our cost to serve, growing gross profit per MWh and the management of bad debt. We are also continuing to develop a digital infrastructure which we believe will enable us to continue to grow, offer market leading propositions and develop our presence in the market for flexible demand management and other value-added services.

We are making good progress with the delivery of our strategy and will build on this as we progress our targets, while playing an important role in our markets and enabling a zero carbon, lower cost energy future for the UK.

# Financial Review

## Introduction

The Group's Adjusted EBITDA for the six months to 30 June 2019 ('the Period') of £138 million increased from £102 million in the six months to 30 June 2018 ('the Prior Period').

The integration of the portfolio of flexible, low-carbon and renewable generation assets acquired from ScottishPower (Hydro and Gas assets) is progressing well and the Hydro and Gas assets contributed £36 million of Adjusted EBITDA in the Period.

As a result of the continued suspension of the Capacity Market, our Generation business has not recognised income of £34 million in the Period, reducing Adjusted EBITDA and Total operating profit. We continued to accrue all costs in respect of Capacity Market obligations in our Customers business (formerly B2B Energy Supply). In the Prior Period, £6 million of Capacity Market revenue was recognised. We continue to believe the

UK Capacity Market will be reinstated during the second half of 2019 as reflected in guidance issued by BEIS in February 2019 and detailed in note 19 to the Condensed Consolidated Interim Financial Statements below.

Pellet Production Adjusted EBITDA in the Period of £8 million decreased from £10 million in the Prior Period, reflecting high levels of rainfall in the US Gulf region that restricted wood pellet production and impacted the shipment of pellets out of the port of Baton Rouge, Louisiana.

Generation Adjusted EBITDA of £148 million in the Period, increased £60 million from £88 million in the Prior Period. This increase reflects the acquisition of the Hydro and Gas assets on 31 December 2018 which contributed £36 million of Adjusted EBITDA in the Period.

As described above, Generation Adjusted EBITDA in the Period excludes £34 million of Capacity Market revenue (including £23 million in respect of the Hydro and Gas assets) that has not been accrued. The Prior Period includes £6 million of Capacity Market revenue.

When excluding the contribution of the Hydro and Gas assets and the impact of the continued suspension of the Capacity Market, Generation Adjusted EBITDA increased £30 million in the Period, despite challenges with wood pellet production and supply constraints which resulted in the deferral of some biomass generation into the second half of the year.

The Hydro and Gas assets contributed to an increase of earnings from system support in the Period, with earnings of £69 million from provision of flexibility compared to £36 million in the Prior Period.

In Customers, Adjusted EBITDA for the Period of £9 million decreased from £16 million in the Prior Period, reflecting a £2 million decrease in gross profit, an increase of £10 million in operating and administrative expenses and a £5 million reduction in impairment losses on trade receivables.

Our Customers business continued to grow market share, with an increase in customer meters of 2% in the Period.

The value achieved per MWh across the Customers portfolio also increased in the Period; however, reflecting mild winter weather, the total volume of energy sold reduced 12% versus the Prior Period.

During the period, Customers incurred £4 million of restructuring and integration costs which are included in operating and administrative expenses (Prior Period: £1 million included in acquisition and restructuring costs which were treated as exceptional). A further £5 million was incurred in the Period in supporting the development of next generation systems and the roll out of smart meters (Prior Period: £3 million). These costs are being incurred with a view to increasing operating leverage as the Customers business continues to grow and, taken together, account for £5 million of the increase in Total operating and administrative costs compared to the Prior Period.

The reduction in impairment losses on trade receivables in Customers during the Period reflects a £3 million benefit in the Period in respect of resolution of legacy credit balances and a one-off expense in the Prior Period of £3 million in respect of SME business. Excluding these items, the bad debt expense in the Period was broadly in line with the Prior Period.

Following the adoption of IFRS 9 'Financial Instruments' in 2018 and subsequent related guidance issued by the IFRIC, the Group elected to present the income statement in a columnar format, with Adjusted Results excluding the impact of fair value accounting gains and losses on derivative contracts along with exceptional items, thereby reflecting the underlying performance of the business. The Adjusted Results are consistent with the way the Board and executive management review performance of the Group throughout the year and are discussed below separately from the Group's Total Results, which are prepared in accordance with full International Financial Reporting Standards.

Unrealised gains and losses on derivative contracts have been allocated to the relevant line item to which the contracts relate; revenue, cost of sales or interest. Exceptional items are categorised in accordance with the Group policy approved by the Audit Committee. Statutory results are shown in the Total Results column. The comparative results for the Prior Period have been restated to reflect this columnar approach.

As previously reported, on 16 May 2019, we issued an additional USD \$200 million of the existing 2025 6.625% USD loan notes and completed the first stage of the acquisition bridge facility refinancing. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. Reflecting the strong investor appetite, the notes were issued at 101.5% of their face value which, when swapped back into sterling, achieved an interest rate of 4.74%.

We are pleased with the progress that we are making with refinancing of the £400 million balance outstanding on the acquisition bridge facility and continue to expect that we will complete the process during 2019.

We are on track to achieve a 2x net debt to Adjusted EBITDA ratio by the end of 2019 subject to reinstatement of the Capacity Market. If the Capacity Market is not reinstated during 2019, we expect to achieve the 2x net debt to Adjusted EBITDA ratio during 2020.

*Income statement extract:*



|                                                    | (Unaudited)                            |                                         |                  | Restated <sup>(4)</sup> (Unaudited) |                                         |                  |
|----------------------------------------------------|----------------------------------------|-----------------------------------------|------------------|-------------------------------------|-----------------------------------------|------------------|
|                                                    | Adjusted Results <sup>(1) (5)</sup> £m | Exceptional Items and Remeasurements £m | Total Results £m | Adjusted Results <sup>(1)</sup> £m  | Exceptional Items and Remeasurements £m | Total Results £m |
| Revenue                                            | 2,226.6                                | 5.8                                     | 2,232.4          | 2,079.0                             | (10.5)                                  | 2,068.5          |
| Cost of sales                                      | (1,862.9)                              | (4.4)                                   | (1,867.3)        | (1,801.0)                           | 34.9                                    | (1,766.1)        |
| Gross profit                                       | 363.7                                  | 1.4                                     | 365.1            | 278.0                               | 24.4                                    | 302.4            |
| Operating and administrative expenses              | (213.2)                                | -                                       | (213.2)          | (158.3)                             | -                                       | (158.3)          |
| Impairment losses on trade receivables             | (12.5)                                 | -                                       | (12.5)           | (18.1)                              | -                                       | (18.1)           |
| Adjusted EBITDA <sup>(2)</sup>                     | 138.0                                  |                                         |                  | 101.6                               |                                         |                  |
| Depreciation                                       | (83.1)                                 | -                                       | (83.1)           | (61.9)                              | -                                       | (61.9)           |
| Amortisation                                       | (19.5)                                 | -                                       | (19.5)           | (21.9)                              | -                                       | (21.9)           |
| Asset obsolescence charge                          | -                                      | -                                       | -                | -                                   | (26.8)                                  | (26.8)           |
| Acquisition and restructuring costs <sup>(3)</sup> | -                                      | (2.7)                                   | (2.7)            | -                                   | (3.1)                                   | (3.1)            |
| Operating profit                                   | 35.4                                   | (1.3)                                   | 34.1             | 17.8                                | (5.5)                                   | 12.3             |

## Notes:

- (1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs) and certain remeasurements.
- (2) Adjusted EBITDA is defined as: Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements. As EBITDA is a non-statutory measure, it has only been presented within the Adjusted Results column.
- (3) Acquisition and restructuring costs in 2019 reflect costs associated with the integration of ScottishPower Generation Limited into the Group Annual Report for the year ended 31 December 2018, following the adoption of IFRS 9 'Financial Instruments' during 2018 and subsequent related guidance issued by the IFRIC.
- (4) Results for the six months ended 30 June 2018 have been restated to reflect the revised presentation of the income statement adopted in the Annual Report for the year ended 31 December 2018, following the adoption of IFRS 9 'Financial Instruments' during 2018 and subsequent related guidance issued by the IFRIC.
- (5) IFRS 16 'Leases' has been adopted with effect from 1 January 2019 using the modified retrospective method of adoption. Consequently, comparative information has not been restated. The impact of adoption is shown in note 20 to the Condensed Consolidated Interim Financial Statements.

## INCOME STATEMENT

### Adjusted Results

#### REVENUE

Adjusted revenue for the Period of £2,227 million increased by £148 million from the Prior Period and was largely driven by the Hydro and Gas assets.

Adjusted revenue from our Pellet Production business of £97 million, increased from £95 million in the Prior Period despite a reduction in production volumes to 646,000 tonnes from 660,000 tonnes in the Prior Period. Significant rainfall in the US Gulf in the first half of 2019 impacted the availability of raw materials, reducing production levels. In addition, river levels have been unseasonably high and impacted the capacity of ships available to transport finished goods back to the UK. All three of our wood pellet plants are demonstrating an improvement in operating performance, with a marked reduction in fines (fine wood dust) at disport in the UK. Pellet Production revenues represent sales of wood pellets from the US to our Generation business, based on an arms-length contract.

Adjusted revenue from our Generation business grew to £1,098 million in the Period, an increase of £128 million from the Prior Period. This increase was despite a reduction in volumes to 8.3 TWh (Prior Period: 8.9 TWh). The reduced volumes in the Period relate primarily to lower levels of coal generation.

Adjusted revenue from our Customers business for the Period of £1,128 million increased from £1,109 million in the Prior Period as a result of improved contract pricing net of reduced volumes. Customer meter volumes grew 2% in the Period, with numbers at 30 June 2019 of 405,000 (compared to 396,000 at 31 December 2018). At the same time, we have increased the value achieved per MWh through efficiencies albeit on volumes that reduced 12% in the Period as a result of mild winter weather, a competitive market and an increasing focus on value which led to our supply volumes reducing.

#### GROSS PROFIT

Adjusted gross profit for the Period of £364 million grew 31% from £278 million in the Prior Period.

The profitability of Pellet Production -relies on volume of wood pellet sales to our Generation business and close control over production costs. Adjusted gross profit in the Period increased to £33 million (compared to £29 million in the Prior Period).

Generation delivered £262 million of adjusted gross profit in the Period (Prior Period: £172 million). This excludes Capacity Market income for the Period of £34 million.

Renewable Obligation Certificates (ROC's) continue to form a key component of financial performance and the expected benefit of ROCs earned is recognised as a reduction in our biomass fuel costs at the point of generation. Each ROC is subsequently recognised as revenue when that ROC is sold to a third party. We earned ROCs with a total value of £229 million in the Period (Prior Period: £192 million).

Customers Adjusted gross profit of £72 million in the Period was £2 million lower than the Prior Period, reflecting the net impact of increased market share and improved profitability per MWh offset by the factors as described above.

Further segmental financial performance is provided in note 2 to the Condensed Consolidated Interim Financial Statements.

#### **OPERATING AND ADMINISTRATIVE EXPENSES**

Operating and administrative expenses of £213 million in the Period increased from £158 million in the Prior Period, primarily reflecting costs associated with the Hydro and Gas assets.

In Pellet Production, adjusted operating and administrative expenses of £25 million in the Period compare to £19 million in the Prior Period, reflecting a full six months of production at LaSalle. In 2018, LaSalle was commissioning during the first quarter.

In Generation adjusted operating and administrative expenses in the Period of £114 million increased from £84 million in the Prior Period, with £24 million of the increase derived from the Hydro and Gas assets.

Operating and administrative expenses for the Customers business in the Period of £50 million compares with £40 million in the Prior Period. As described above, £5 million of these additional operating costs relate to increased spend in the Period on restructuring and integration and supporting the development of next generation systems and the roll out of smart meters.

Restructuring and integration costs primarily reflect costs incurred in the Period to combine our Haven and Opus businesses. We are making good progress and believe that this will help drive alignment of decision making, effective market segmentation and delivery of operational efficiencies.

We remain focused on creating a scalable operating platform which can reduce our cost to serve customers and believe this will be an important source of competitive advantage, supporting customer meter growth and increasing value per MWh.

Core Services operating and administrative expenses for the Period of £24 million compares to £15 million in the Prior Period. The increase of £9 million includes incremental costs as a result of the acquired Hydro and Gas assets and one-time costs to implement a new organisational structure that we believe will enable us to execute our strategy more effectively. During the Period costs associated with implementing working capital initiatives and investing in research and innovation also increased.

#### **IMPAIRMENT LOSSES ON TRADE RECEIVABLES**

Impairment losses on trade receivables of £13 million in the Period compare to £18 million in the Prior Period and £13 million in the six months ended 31 December 2018. As described above, the Period includes a £3 million benefit in respect of resolution of legacy credit balances while the Prior Period includes a one-off expense of £3 million in respect of SME business. There is a continued strong focus on managing bad debt and reducing impairment losses on trade receivables as a percentage of revenue.

#### **ADJUSTED EBITDA**

Adjusted EBITDA for the Group increased by 35% in the Period to £138 million from £102 million in the Prior Period. This increase reflects the financial performance detailed above, reduced by £2 million for intra-group eliminations which are described in note 2 to the Condensed Consolidated Interim Financial Statements. In the Prior Period, intra-group eliminations increased Adjusted EBITDA by £3 million.

#### **DEPRECIATION AND AMORTISATION**

Depreciation of £83 million increased by £22 million in the Period, reflecting depreciation on the Hydro and Gas assets. The Hydro assets have a useful life of 48 years and the useful life of the Gas assets varies from 4 years to 19 years.

Amortisation charges in the Period totalled £20 million, broadly in line with the Prior Period (£22 million). These costs relate to software and intangible assets acquired with the Opus business.

#### **OPERATING PROFIT**

Adjusted operating profit of £35 million in the Period increased £17 million from the Prior Period, reflecting the items described above.

#### **NET INTEREST CHARGES**

Adjusted net interest charges of £32 million in the Period have increased from £21 million in the Prior Period largely as a result of the higher quantum of gross debt held following the draw down on 2 January 2019 of £550 million of the acquisition bridge facility to fund the purchase of the Hydro and Gas assets.

**ADJUSTED PROFIT/LOSS BEFORE AND AFTER TAX**

Adjusted profit before tax of £7 million in the Period compares to an Adjusted profit before tax of £1 million in the Prior Period.

The Adjusted tax credit of £1 million in the Period compares to an Adjusted tax credit of £5 million in the Prior Period. The Prior Period Adjusted tax credit reflects the recognition of a benefit in relation to Patent Box claims which were retrospective to 1 April 2013. The Group's estimated effective tax rate is lower than the standard corporation tax rate in the UK, principally due to a portion of profits benefitting from the 10% tax rate applicable to Patent Box claims.

Adjusted profit after tax of £8 million in the Period compares to an Adjusted profit after tax of £7 million in the Prior Period.

**Total Results**

Total Results represent the statutory results of the Group. They include remeasurements in relation to the fair value of derivative contracts which are not designated to be in a hedging relationship under IFRS 9, and exceptional items which are not part of the underlying performance of the business.

Following the adoption of IFRS 9 during 2018 and subsequent related guidance issued by the IFRIC, our accounting policy requires that fair value movements on existing derivative contracts and fair value gains and losses on contracts which have closed out in the year, are recognised in the income statement line item to which the underlying commodity relates. Due to the volatility in fair value movements, which are entirely market dependent and do not impact cash flows, we have chosen to present these fair value gains and losses in a separate column in the income statement in order to clearly present underlying business performance.

**REVENUE**

Total revenue in the Period increased to £2,232 million (Prior Period: £2,069 million). Total revenue includes remeasurements relating to fair value gains and losses that are excluded from Adjusted revenue. These remeasurements which relate to gas contracts in our Generation business are used as a proxy hedge for movements in power prices. Fair value gains in the Period of £6 million compare with fair value losses in the Prior Period of £11 million.

**GROSS PROFIT**

Total gross profit in the Period of £365 million compares with £302 million in the Prior Period, an increase of £63 million. Total gross profit includes fair value gains on derivative contracts of £1 million in the Period (Prior Period: £24 million) which are excluded from Adjusted gross profit.

The Group is exposed to the fluctuations in foreign currency rates resulting from committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business and which are inherently volatile. Foreign currency contracts are a key component of the Group's risk management strategy and help to secure and de-risk the future cash flows of the business.

A proportion of foreign currency derivatives do not qualify for hedge accounting. In addition to hedging foreign currency commitments, we forward purchase coal, gas, oil and freight, aspects of which also do not qualify for hedge accounting.

The gains on these contracts in the Period have predominantly been driven by changes in currency rates partially offset by a reduction in gas prices.

In the Prior Period we recognised £24 million of gains on derivative contracts, driven primarily by movements in the fair value of oil contracts used as part of our hedging programme.

**OPERATING PROFIT**

Total operating profit of £34 million in the Period, compares with £12 million in the Prior Period, an increase of £22 million. Total operating profit in the Period includes acquisition and restructuring costs which are excluded from Adjusted operating profit as described above. In the Prior Period, total operating profit included acquisition and restructuring costs and asset obsolescence charges both of which are excluded from Adjusted operating profit as described above.

Acquisition and restructuring costs of £3 million in the Period represent clearly identified costs associated with the integration of the Hydro and Gas assets. In the Prior Period acquisition and restructuring costs of £3 million included costs of relocating the US head office from Atlanta to Monroe, Louisiana, in addition to restructuring costs within the Customers segment.

Asset obsolescence charges in the Prior Period of £27 million relate to the full write down of certain coal-specific assets following the decision to convert the fourth generating unit from coal to biomass.

**NET INTEREST CHARGES**

Total net interest charges in the Period include £3 million of costs relating to fees associated with the acquisition bridge facility which have been amortised over the period. The acquisition bridge facility was drawn down to finance the acquisition of the Hydro and Gas assets and therefore this charge has been classified as an exceptional item in the income statement.

The Prior Period includes £7 million of refinancing costs and accelerated deferred financing costs on loans which were subsequently repaid in the Period.

### **PROFIT/LOSS BEFORE AND AFTER TAX**

The Group's Total profit before tax was £4 million for the Period, compared to a Total loss before tax of £11 million for the Prior Period. The increase predominantly reflects an improvement in underlying business performance (reflected in EBITDA), along with the movement from derivative contracts which is explained in more detail below under Derivative Contracts.

Total profit after tax of £4 million and a basic earnings per share of 1.0 pence in the Period compares to a loss after tax of £4 million and a basic loss per share of 1.0 pence in the Prior Period.

## **FINANCIAL POSITION**

### **PLANT, PROPERTY AND EQUIPMENT**

The Group has a disciplined approach to capital expenditure, with all projects subject to review by an investment committee and the large projects requiring Board approval. Investment is prioritised to address safety and regulatory requirements and to ensure plant is fully maintained and fit for purpose. Capital expenditure in the Period was £60 million, including £5 million in relation to the newly acquired Hydro and Gas assets, compared to £46 million in the Prior Period. Of the spend in the Period, £16 million related to projects to maintain operational performance, £36 million to enhancement projects including next generation systems in our Customers business, a turbine upgrade programme and £8 million to strategic investments including the expansion of our biomass self-supply capacity. The Prior Period capital expenditure included the early stages of work to convert the fourth generating unit to biomass, in addition to investment in Customers business on a new information technology platform and the roll out of Smart meters.

The total carrying value of plant, property and equipment was £2,257 million at 30 June 2019 (30 June 2018: £1,602 million) reflecting the addition of the newly acquired Hydro and Gas assets which had a fair value of £690 million at acquisition.

There was no change in the valuation of our four OCGT assets, which remain under development.

### **CASH GENERATED FROM OPERATIONS**

Cash generated from operations was £227 million in the Period, an increase of £106 million compared to the Prior Period. This primarily reflects the improvement in EBITDA of £36 million in the Period, a net £56 million inflow arising from the rebasing of hedged foreign exchange contracts (increased from £nil in the Prior Period), and a working capital inflow in the Period of £35 million (Prior Period: £25 million inflow). This inflow comprised the net of a working capital outflow from an increase in the ROC Asset of £96 million to £312 million (31 December 2018: £217 million), a £65m increase in inventory levels to £288 million (31 December 2018: £223 million) which is in part mitigated by the working capital inflow of £116 million from an increase in payables in the Period. In addition, a reduction in receivables to £389 million (31 December 2018: £474 million) delivered an £80 million working capital inflow as a result of seasonality of sales and factoring of ROC receivables described below.

The overall net cash outflow for the Period was £46 million (Prior Period: inflow of £22 million) after the draw-down of £550 million of the acquisition bridge facility, acquisition costs of £692 million, cash payments for capital expenditure of £68 million (Prior Period: £48 million), dividend payments of £34 million (Prior Period: £30 million) and cash taxes of £7 million (Prior Period: £7 million cash taxes refunded).

The Group has a strong focus on cash flow discipline and manages liquidity carefully through the cash generation cycle.

The Customers business has access to a £150 million facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis, mitigating credit risk in the process. There was no change in utilisation in the first six months ended 30 June 2019 and therefore there was a net £nil impact on cash flows (Prior Period: an increase in utilisation leading to a £31 million inflow).

Historically, cash from ROCs has typically been realised several months after the ROC was earned at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making sales and purchases in the compliance period. These transactions reduced the overall working capital outflow from ROCs by £77 million to £96 million (Prior Period: increase in overall outflow of £57 million to £224 million). The Group also has access to facilities enabling it to sell ROC trade receivables arising on a non-recourse basis. Utilisation of these facilities was £46 million at 30 June 2019 (30 June 2018: £nil).

The Group utilises a number of payment facilities to leverage scale and efficiencies in transaction processing, for which £139 million was outstanding at 30 June 2019, an increase of £52 million in the Period as a result of increased inventory levels (30 June 2018: £40 million, an increase of £40 million compared to 31 December 2017 £nil). The Group accelerates payments to certain suppliers, whilst trying to maintain its overall working capital position with the amounts on these facilities falling due between 2 and 60 days from the end of the period.

During the Period the Group rebased several foreign currency contracts, which generated a cost-effective working capital benefit. The total cash benefit released from related trades still outstanding at 30 June 2019 was £97 million., reflected in cash generated from operations. This has no impact on Adjusted EBITDA until the rebased trades expire, with gains held on the Group's balance sheet in the hedge reserve (being the £56 million)

or deferred income (of £41 million) dependent upon whether the contract qualifies for hedge accounting under IFRS 9.

## NET DEBT AND FUNDING

At 30 June 2019, the Group held total borrowings of £1,169 million (30 June 2018: £611 million) and net debt of £924 million (30 June 2018: £366 million).

On 2 January 2019, the Group drew down £550 million from the £725 million acquisition bridge facility to partially fund the acquisition of the Hydro and Gas assets, with the remainder of the consideration funded from the Group's cash resources. The acquisition bridge facility matures in the second half of 2020.

As previously reported, on 16 May 2019, we issued an additional USD \$200 million of the existing 2025 6.625% USD loan notes and completed the first stage of the acquisition bridge facility refinancing. The proceeds from the issuance were used to repay £150 million of the drawn down acquisition bridge facility. Reflecting the strong investor appetite, the notes were issued at 101.5% of their face value which, when swapped back into sterling, achieved an interest rate of 4.74%.

The Group's financing structure also includes a £350 million 4.25% fixed rate bond, a USD \$300 million bond with a fixed interest rate of 6.625%, which was swapped back to sterling upon issuance at an effective interest rate of 5%, and a £350 million facility comprised a Revolving Credit Facility (RCF) with a value of £315 million and an index-linked term loan of £35 million. The RCF matures in April 2021, with an option to extend by one year. At 30 June 2019, the RCF had been used to draw down letters of credit with a total value of £31 million (30 June 2018: £21 million).

The Group also has access to secured trading lines, available with certain counterparties, providing support to the trading programme.

We remain committed to maintaining a strong balance sheet and a strong credit rating. Following the acquisition of the Hydro and Gas assets, the net debt to Adjusted EBITDA ratio has increased. Given the strong focus on cash generation, we continue to expect that the net debt to Adjusted EBITDA ratio will reduce to 2x by the end of 2019, subject to the reinstatement of the Capacity Market during 2019. If the Capacity Market is not reinstated during 2019, we expect to achieve the 2x net debt to Adjusted EBITDA ratio during 2020.

Further information on funding arrangements is included in note 10 to the Condensed consolidated interim financial statements.

## PENSIONS

The Group operates a defined contribution pension scheme in each of its operating companies and, in addition, the Generation business operates a defined benefit scheme within the Electricity Supply Pension Scheme framework. The actuarial review of our defined benefit pension scheme at 30 June 2019, applying assumptions consistent with the methodology adopted in previous accounting periods, has resulted in a funding surplus of £15 million (30 June 2018: surplus of £22 million). This is largely driven by a decrease in the discount rate assumption to 2.35% (30 June 2018: 2.95%), which has increased the value of the scheme liabilities by £37 million, net of an improvement in asset returns driving an increase of £23 million.

The terms of the Trust Deed for the defined benefit scheme allow the Group to recover any surplus once the liabilities of the scheme have been settled. We have therefore recognised the £15 million funding surplus at 30 June 2019 in non-current assets within the Balance Sheet.

The defined benefit scheme triennial valuation, which was last completed as at 31 March 2016, is based on the discount rate and cost assumptions applicable at the time and resulted in a technical provisions deficit. This provision has improved since the triennial valuation, consistent with the movement in the accounting provision. The Group remains committed to make contributions towards the repair of this deficit until 2025. See page 161 of the Group's 2018 Annual Report and Accounts for further detail.

Former ScottishPower employees with defined benefit pension rights continue to participate in the ScottishPower pension scheme whilst Drax is in the process of setting up a new scheme for members to transfer to, which will include assets and liabilities for past service benefits. Drax's share of the ScottishPower pension scheme assets and liabilities for these employees has been calculated for inclusion in the Condensed consolidated balance sheet, and results in a pension scheme surplus of £3 million. The Group is entitled to receive any surplus on the new scheme once the liabilities have been met under the terms of the draft trust deed.

## DERIVATIVE CONTRACTS

We enter into forward contracts for the purchase and sale of physical commodities, principally power, gas, coal, biomass and carbon emissions, to secure the margin associated with forward electricity sales, and also foreign currency derivatives to fix sterling cash flows. We also enter into interest rate and inflation derivatives to fix underlying exposures. All contracts are measured at fair value as at the balance sheet date, with changes to this value being recognised in either the income statement or the hedge reserve dependent upon whether the contract qualifies as an effective hedge under IFRS.

A successful commercial hedging strategy is critical to the Group's business model. Our policy is to fix exposures to commodity price movements and changes in foreign exchange rates using derivative contracts such as those

described above. This strategy aims to de-risk the business, providing security and certainty over cash flows in the future.

The term of our foreign currency derivative hedges is limited by available credit lines and market liquidity. We have hedges in place to cover anticipated exposures into 2024, beyond which there is a risk that the cost of our fuel purchases will materially increase. We are actively working on reducing the long-term cost of biomass fuel to preserve gross margins beyond the current currency hedge period.

A gain of £62 million was recognised in the Period in the hedge reserve (Prior Period: gain of £19 million) driven primarily by movements in power prices which have weakened in the Period increasing the value of our hedged position, following a mild winter across Europe and a resulting oversupply of gas.

A further gain of £41 million was recognised in the Period in the cost of hedging reserve (Prior Period: gain of £1 million). The cost of hedging, defined by IFRS, principally reflects movements in forward points and the time value of options in our portfolio of foreign currency derivatives.

The accounting treatment of derivative contracts is set out in note 14 to the Condensed consolidated interim financial statements.

## OTHER INFORMATION

### DISTRIBUTIONS

At the Annual General Meeting on 17 April 2019, shareholders approved payment of a final dividend for the year ended 31 December 2018 of 8.2 pence per share (£34 million). The final dividend was paid on 10 May 2019.

On 23 July 2019, the Board resolved to pay an interim dividend for the six months ended 30 June 2019 of 6.4 pence per share (£25 million), representing 40% of the expected full year dividend. The interim dividend will be paid on 11 October 2019 with a record date of 20 September 2019.

The Board expects to recommend a full year dividend of £63 million with regards to the 2019 financial year.

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

### NEW ACCOUNTING STANDARDS

During the Period, we adopted one new accounting standard; IFRS 16 'Leases'. On transition, the Group elected to use the transition practical expedient allowing the standard to only be applied to those contracts previously identified as leases under the previous standards. As a result, the adoption of IFRS 16 has not resulted in any retrospective changes to the amounts recognised in the Group's annual consolidated financial statements for the year ended 31 December 2018.

The Group's lease portfolio predominantly relates to real estate and the hire of plant and equipment at operating sites. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Group has recognised a corresponding liability for the amounts payable under the lease contracts.

### GOING CONCERN

The Group's business activities, together with activities likely to affect future development, principal risks and uncertainties, financial position, performance, cash flows, credit metrics and other key financial ratios are discussed within the Business Review and this Financial Review for the six months ended 30 June 2019 and our Annual Report and Accounts for the financial year ended 31 December 2018.

Our cash flows and borrowing facilities are described above. In addition, note 13 to the Condensed Consolidated Interim Financial Statements explains our approach to capital risk management and exposure to financial risks (including credit, counterparty and liquidity risk) and gives details of financial instruments and hedging activities used to mitigate these risks and exposures.

The Board expects the above sources of funding, along with stable cash flows generated by the Group from its normal operations, to provide adequate levels of funding to support the execution of the Group's Business Plan.

During the period, the Group has made good progress with the refinancing of the acquisition bridge facility which was drawn to support the acquisition of the Hydro and Gas assets. We have adequate headroom in our banking facilities, a recent history of strong cash generation and covenant compliance. We retain good visibility in near-term forecasts, supported by stable revenue streams.

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

Consequently, the directors have a reasonable expectation that the Group will continue in existence for the next twelve months and therefore, have adopted the going concern basis when preparing these financial statements.

#### **PRINCIPAL RISKS AND UNCERTAINTIES**

The Group's financial and operating performance is subject to several risks and uncertainties. We manage the risks faced by the Group in accordance with policies approved by the Board.

The Board monitor changes to the Group's risks and uncertainties so that we are prepared to take mitigating action where appropriate. The directors consider the process of risk management and the principal risks and uncertainties are unchanged for the Period.

The protracted negotiations, and possibility of a no-deal Brexit process, for the withdrawal of the UK from the European Union provide on-going commercial, political and regulatory uncertainty. We continue to promote the benefits of biomass and are engaged with government and regulators in the UK and internationally to ensure the Group's views and positions on current and forthcoming legislation and regulations, and on energy and environmental policy issues that may have implications for our business, are represented.

Further details of the Group's principal risks and uncertainties can be found on pages 44 - 49 of the 2018 Annual Report and Accounts which is available at [www.drax.com](http://www.drax.com)

#### **RELATED PARTIES**

The Group set out in its 2018 Annual Report and Accounts (page 177) the related party transactions arising which were in relation to remuneration of key management personnel. There have been no new related party transactions, other than the remuneration of key management personnel, since 31 December 2018.

#### **PROFIT FORECAST**

In the Class 1 circular, published on 5 December 2018 in connection with the acquisition of Gas and Hydro assets from ScottishPower, we made a profit forecast for the twelve-month period ending 31 December 2019. We stated the acquired assets would generate EBITDA in a range of £90 million to £110 million. We continue to expect to achieve this forecast.

Full details of the profit forecast (including the assumptions on which it was made and the sensitivity to the Capacity Market payments due in 2019) are set out on pages 59 and 60 of the Class 1 circular.

The Class 1 circular can be accessed on the Group's website: [www.drax.com/circular2018](http://www.drax.com/circular2018)

The contents of the Business and Financial Review were approved by the Board on 23 July 2019.

## **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

#### **Will Gardiner**

Chief Executive Officer

23 July 2019

# Condensed Consolidated Interim Financial Statements

## Introduction

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

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

## Basis of preparation

The Condensed Consolidated Interim Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with IAS 34 "Interim Financial Reporting". The information provided in respect of the year ended 31 December 2018 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 Interim Financial Statements have been prepared on the going concern basis and on the historical cost basis, except for certain assets and liabilities that have been measured at fair value (principally derivative financial instruments and acquired intangible assets).

The Condensed Consolidated Interim Financial Statements were approved by the Board on 23 July 2019.

## Adoption of new and revised accounting standards

The accounting policies adopted in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. The Group has not early-adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The Group applies, for the first time, IFRS 16 'Leases'. The Group has elected to adopt the modified retrospective application. As a result, adoption of IFRS 16 has not resulted in any retrospective changes to the amounts recognised in the Group's annual consolidated financial statements for the year ended 31 December 2018, nor the Condensed Consolidated Interim Financial Statements for the six months ended 30 June 2018. The impact of this transition is shown in note 20.

## Judgements and estimates

The significant judgements and estimates applied in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with those described on pages 114-116 of the Group's 2018 Annual Report and Accounts. Whilst judgements have been made on initial application of IFRS 16, these are not considered significant to the Condensed Consolidated Interim Financial Statements. Further information on the adoption of IFRS 16 is included in note 20.

## Restatement of comparatives

The Group provides comparative financial information in these Condensed Consolidated Interim Financial Statements for both the six months ended 30 June 2018 and the year ended 31 December 2018. Where included within text, income statement comparatives refer to the six months ended 30 June 2018 and balance sheet comparatives refer to 31 December 2018, unless otherwise stated.

The financial information for six months ended 30 June 2018 included in these Condensed Consolidated Interim Financial Statements has been restated to align the presentation with that used in the Group's 2018 Annual Report and Accounts. The updated presentation is described in further detail on pages 175-177 of the Group's 2018 Annual Report and Accounts.

A columnar format is used for the income statement in which Adjusted Results are presented, excluding certain gains and losses arising from remeasuring derivative contracts to fair value and other items considered to be exceptional by their nature.

This format was presented for the first time in the consolidated financial statements for the year ended 31 December 2018, therefore the comparative results for the half year ended 30 June 2018 have been restated in this report. As part of this change, unrealised gains and losses on derivative contracts have been included in the



line to which the underlying contract relates, in line with IFRIC guidance issued in 2019 (IFRIC Updated March 2019 - Agenda paper 11). The full year results for December 2018 are disclosed in note 23.

The Statement of changes in equity and Statement of other comprehensive income for the comparative period ended 30 June 2018 have been restated to reflect fair value gains and losses that relate to fuel purchases being released directly from reserves and not recognised in Other comprehensive income.

The balance sheet for the year ended 31 December 2018 has been restated to reflect updated values for assets and liabilities acquired in relation to the acquisition of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited - see note 9), following the conclusion of the completion statement process in the first half of 2019.

## Alternative performance measures (APMs)

### Adjusted Results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the income statement. Exceptional items and certain remeasurements are deducted from the Total Results in arriving at the Adjusted Results for the year. The Group's Adjusted Results are consistent with the way executive management and the Board assess the performance of the Group. The Adjusted Results are intended to reflect the underlying performance of the Group's businesses and are presented to assist users of the accounts in evaluating the Group's trading performance and performance against strategic objectives.

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, previous precedent and commercial context. Exceptional items are approved by the Audit Committee.

Certain remeasurements comprise fair value gains and losses on derivative forward contracts to the extent those contracts do not qualify for hedge accounting, or hedge accounting is not effective, which under IFRS are recorded in revenue, cost of sales or interest payable and similar charges. The Group regards all of its forward contracting activity to represent an economic hedge. The impact of excluding these fair value remeasurements is to reflect commodity sales and purchases at contracted prices (the price paid or received in respect of delivery of the commodity in question), taking into account the impact of financial trading (such as forward foreign currency purchases), in the Adjusted Results.

Further information on exceptional items and certain remeasurements in the current and previous period is included in note 6.

### Adjusted EBITDA

The Group presents an additional subtotal in the Adjusted Results column. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is the primary measure used by the Board and executive management to assess the financial performance of the Group.

### Net debt

The Group defines net debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities, as disclosed in note 10, but excludes other financial liabilities such as IFRS 16 lease liabilities, pension obligations and trade and other payables. Cash and cash equivalents is calculated in accordance with IFRS. A reconciliation of net debt is included in note 12. Whilst the definition of net debt is unchanged from previous periods, following the adoption of IFRS 16 as of 1 January 2019, finance leases no longer form part of borrowings and have been subsumed into the larger lease liability calculated in accordance with IFRS 16. The carrying amount of finance lease liabilities at 31 December 2018 was £0.5 million.

## Condensed consolidated income statement

|                                        | Six months ended 30 June<br>2019 (Unaudited) |                                          |                                                             | Six months ended 30 June<br>2018 Restated <sup>(3)</sup> (Unaudited) |                                          |                                                             |                        |
|----------------------------------------|----------------------------------------------|------------------------------------------|-------------------------------------------------------------|----------------------------------------------------------------------|------------------------------------------|-------------------------------------------------------------|------------------------|
|                                        | Notes                                        | Adjusted<br>Results <sup>(1)</sup><br>£m | Exceptional<br>items and<br>certain<br>remeasurements<br>£m | Total<br>Results<br>£m                                               | Adjusted<br>Results <sup>(1)</sup><br>£m | Exceptional<br>items and<br>certain<br>remeasurements<br>£m | Total<br>Results<br>£m |
| Revenue                                | 3                                            | 2,226.6                                  | 5.8                                                         | 2,232.4                                                              | 2,079.0                                  | (10.5)                                                      | 2,068.5                |
| Total cost of sales                    |                                              | (1,862.9)                                | (4.4)                                                       | (1,867.3)                                                            | (1,801.0)                                | 34.9                                                        | (1,766.1)              |
| <b>Gross profit</b>                    |                                              | <b>363.7</b>                             | <b>1.4</b>                                                  | <b>365.1</b>                                                         | <b>278.0</b>                             | <b>24.4</b>                                                 | <b>302.4</b>           |
| Operating and administrative expenses  |                                              | (213.2)                                  | -                                                           | (213.2)                                                              | (158.3)                                  | -                                                           | (158.3)                |
| Impairment losses on trade receivables |                                              | (12.5)                                   | -                                                           | (12.5)                                                               | (18.1)                                   | -                                                           | (18.1)                 |

|                                                                    |   |              |              |              |        |        |
|--------------------------------------------------------------------|---|--------------|--------------|--------------|--------|--------|
| <b>Adjusted EBITDA<sup>(2)</sup></b>                               |   | <b>138.0</b> |              | 101.6        |        |        |
| Depreciation                                                       |   | (83.1)       | -            | (83.1)       | (60.7) | (60.7) |
| Amortisation                                                       |   | (19.5)       | -            | (19.5)       | (21.9) | (21.9) |
| Asset obsolescence charge                                          |   | -            | -            | -            | (26.8) | (26.8) |
| Loss on disposal                                                   |   | -            | -            | -            | (1.2)  | (1.2)  |
| Acquisition and restructuring costs                                |   | -            | (2.7)        | (2.7)        | (3.1)  | (3.1)  |
| <b>Operating profit/(loss)</b>                                     |   | <b>35.4</b>  | <b>(1.3)</b> | <b>34.1</b>  | 17.8   | (5.5)  |
| Foreign exchange gains                                             | 4 | 3.5          | -            | 3.5          | 4.1    | -      |
| Interest payable and similar charges                               | 4 | (32.2)       | (2.3)        | (34.5)       | (20.9) | (7.2)  |
| Interest receivable                                                | 4 | 0.4          | -            | 0.4          | 0.4    | -      |
| <b>Profit/(loss) before tax</b>                                    |   | <b>7.1</b>   | <b>(3.6)</b> | <b>3.5</b>   | 1.4    | (12.7) |
| Tax:                                                               |   |              |              |              |        |        |
| Total tax credit/(charge)                                          | 5 | 0.7          | (0.3)        | 0.4          | 5.2    | 2.1    |
| <b>Profit/(loss) for the period attributable to equity holders</b> |   | <b>7.8</b>   | <b>(3.9)</b> | <b>3.9</b>   | 6.6    | (10.6) |
| <b>Earnings/(loss) per share</b>                                   |   | <b>pence</b> |              | <b>pence</b> | pence  | pence  |
| - Basic                                                            | 8 | 2.0          |              | 1.0          | 1.6    | (1.0)  |
| - Diluted                                                          | 8 | 2.0          |              | 1.0          | 1.6    | (1.0)  |

All results relate to continuing operations.

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. See note 6 for further details.

(2) Adjusted EBITDA is defined as: Earnings before interest, tax, depreciation and amortisation excluding the impact of exceptional items and certain remeasurements.

(3) Results for six months ended 30 June 2018 have been restated to reflect the revised presentation of the income statement adopted in the Group's Annual Report and Accounts for the year ended 31 December 2018.

## Condensed consolidated statement of comprehensive income

|                                                                                 | Six months ended 30 June |                            |
|---------------------------------------------------------------------------------|--------------------------|----------------------------|
|                                                                                 | 2019                     | 2018                       |
|                                                                                 | (Unaudited) £m           | Restated<br>(Unaudited) £m |
| <b>Profit/(loss) for the period</b>                                             | <b>3.9</b>               | <b>(4.0)</b>               |
| <b>Items that will not subsequently be reclassified to profit or loss:</b>      |                          |                            |
| Actuarial (losses)/gains on defined benefit pension scheme                      | (6.7)                    | 20.9                       |
| Deferred tax on actuarial (losses)/gains on defined benefit pension scheme      | 1.3                      | (4.0)                      |
| (Loss)/gain on equity investments                                               | (0.5)                    | 0.3                        |
| Net fair value gains/(losses) on cost of hedging                                | 36.1                     | (8.0)                      |
| Deferred tax on cost of hedging                                                 | (6.9)                    | 1.5                        |
| Net fair value gains on cash flow hedges                                        | 122.8                    | 72.2                       |
| Deferred tax on cash flow hedges                                                | (23.3)                   | (8.6)                      |
| <b>Items that may subsequently be reclassified to profit or loss:</b>           |                          |                            |
| Exchange differences on translation of foreign operations                       | (0.7)                    | (2.5)                      |
| Fair value gains/(losses) on cash flow hedges                                   | 49.0                     | (15.7)                     |
| Deferred tax on cash flow hedges                                                | (9.3)                    | 1.9                        |
| <b>Other comprehensive income for the period</b>                                | <b>161.8</b>             | <b>58.0</b>                |
| <b>Total comprehensive income for the period attributable to equity holders</b> | <b>165.7</b>             | <b>54.0</b>                |

Results for six months ended 30 June 2018 have been restated to reflect the revised presentation of the income statement adopted in the Group's Annual Report and Accounts for the year ended 31 December 2018.

## Condensed consolidated balance sheet

|                                                           | Notes | As at 30 June     |                   | As at 31                    |
|-----------------------------------------------------------|-------|-------------------|-------------------|-----------------------------|
|                                                           |       | 2019              | 2018              | December                    |
|                                                           |       | (Unaudited)<br>£m | (Unaudited)<br>£m | Restated<br>(Audited)<br>£m |
| <b>Assets</b>                                             |       |                   |                   |                             |
| <b>Non-current assets</b>                                 |       |                   |                   |                             |
| Goodwill                                                  |       | 247.0             | 169.9             | 247.0                       |
| Intangible assets                                         |       | 216.5             | 225.3             | 228.8                       |
| Property, plant and equipment                             |       | 2,257.4           | 1,601.8           | 2,292.3                     |
| Right-of-use assets                                       | 20    | 25.2              | -                 | -                           |
| Other fixed asset investments                             |       | 2.1               | 1.7               | 2.4                         |
| Retirement benefit surplus                                |       | 17.7              | 21.8              | 22.7                        |
| Deferred tax assets                                       |       | 33.1              | 22.3              | 31.8                        |
| Derivative financial instruments                          | 14    | 329.0             | 224.1             | 295.2                       |
|                                                           |       | <b>3,128.0</b>    | <b>2,266.9</b>    | <b>3,120.2</b>              |
| <b>Current assets</b>                                     |       |                   |                   |                             |
| Inventories                                               |       | 287.9             | 214.1             | 222.5                       |
| ROC assets                                                |       | 312.2             | 369.4             | 216.7                       |
| Trade and other receivables and contract-related assets   |       | 389.3             | 358.4             | 474.1                       |
| Derivative financial instruments                          | 14    | 268.6             | 221.3             | 215.4                       |
| Cash and cash equivalents                                 |       | 244.3             | 245.3             | 289.0                       |
|                                                           |       | <b>1,502.3</b>    | <b>1,408.5</b>    | <b>1,417.7</b>              |
| <b>Liabilities</b>                                        |       |                   |                   |                             |
| <b>Current liabilities</b>                                |       |                   |                   |                             |
| Trade and other payables and contract-related liabilities |       | (1,042.0)         | (868.3)           | (940.5)                     |
| Lease liabilities                                         | 20    | (4.5)             | -                 | -                           |
| Amounts payable in respect of acquisitions                |       | -                 | -                 | (691.7)                     |
| Current tax liabilities                                   |       | (12.0)            | (4.5)             | (8.4)                       |
| Borrowings                                                | 10    | -                 | (9.6)             | (0.1)                       |
| Derivative financial instruments                          | 14    | (95.2)            | (164.1)           | (89.4)                      |
|                                                           |       | <b>(1,153.7)</b>  | <b>(1,046.5)</b>  | <b>(1,730.1)</b>            |
| <b>Net current assets/(liabilities)</b>                   |       | <b>348.6</b>      | <b>362.0</b>      | <b>(312.4)</b>              |
| <b>Non-current liabilities</b>                            |       |                   |                   |                             |
| Borrowings                                                | 10    | (1,168.7)         | (601.8)           | (608.0)                     |
| Lease liabilities                                         | 20    | (22.0)            | -                 | -                           |
| Derivative financial instruments                          | 14    | (40.6)            | (74.4)            | (62.0)                      |
| Provisions                                                |       | (53.9)            | (37.1)            | (50.8)                      |
| Deferred tax liabilities                                  |       | (332.5)           | (222.9)           | (316.0)                     |
|                                                           |       | <b>(1,617.7)</b>  | <b>(936.2)</b>    | <b>(1,036.8)</b>            |
| <b>Net assets</b>                                         |       | <b>1,858.9</b>    | <b>1,692.7</b>    | <b>1,771.0</b>              |
| <b>Shareholders' equity</b>                               |       |                   |                   |                             |
| Issued equity                                             |       | 47.3              | 47.0              | 47.0                        |
| Share premium                                             |       | 428.8             | 424.4             | 424.7                       |
| Treasury shares                                           | 18    | (50.4)            | (12.9)            | (47.1)                      |
| Hedge reserve                                             | 16    | 291.3             | 129.8             | 199.9                       |
| Cost of hedging reserve                                   |       | 21.1              | (41.7)            | (8.9)                       |
| Other reserves                                            | 17    | 712.0             | 703.0             | 712.7                       |
| Retained profits                                          |       | 408.8             | 443.1             | 442.7                       |
| <b>Total shareholders' equity</b>                         |       | <b>1,858.9</b>    | <b>1,692.7</b>    | <b>1,771.0</b>              |

The balance sheet for the year ended 31 December 2018 has been restated to reflect updated values in respect of assets and liabilities acquired as part of the purchase of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited). See note 9.

## Condensed consolidated statement of changes in equity

|  | Issued equity | Share premium | Treasury shares | Hedge reserve  | Cost of hedging reserve | Other reserves | Retained profits              | Total |
|--|---------------|---------------|-----------------|----------------|-------------------------|----------------|-------------------------------|-------|
|  | £m            | £m            | £m              | Restated<br>£m | Restated<br>£m          | £m             | Restated <sup>(2)</sup><br>£m | £m    |
|  |               |               |                 |                |                         |                |                               |       |

|                                                                |             |              |               |              |               |              |              |                |
|----------------------------------------------------------------|-------------|--------------|---------------|--------------|---------------|--------------|--------------|----------------|
| <b>At 1 January 2018</b>                                       | <b>47.0</b> | <b>424.3</b> | -             | <b>126.1</b> | <b>(40.7)</b> | <b>705.5</b> | <b>457.9</b> | <b>1,720.1</b> |
| Profit for the year                                            | -           | -            | -             | -            | -             | -            | 20.2         | 20.2           |
| Other comprehensive income                                     | -           | -            | -             | 150.3        | 20.1          | 7.2          | 13.1         | 190.7          |
| Total comprehensive income for the year                        | -           | -            | -             | 150.3        | 20.1          | 7.2          | 33.3         | 210.9          |
| Equity dividends paid                                          | -           | -            | -             | -            | -             | -            | (52.5)       | (52.5)         |
| Issue of share capital                                         | -           | 0.4          | -             | -            | -             | -            | -            | 0.4            |
| Movements on cash flow hedges released directly from equity    | -           | -            | -             | (94.2)       | -             | -            | -            | (94.2)         |
| Deferred tax on cash flow hedges released directly from equity | -           | -            | -             | 17.7         | -             | -            | -            | 17.7           |
| Movement on cost of hedging released directly from equity      | -           | -            | -             | -            | 14.5          | -            | -            | 14.5           |
| Deferred tax on cost of hedging released directly from equity  | -           | -            | -             | -            | (2.8)         | -            | -            | (2.8)          |
| Repurchase of shares <sup>(1)</sup>                            | -           | -            | (47.1)        | -            | -             | -            | -            | (47.1)         |
| Movement in equity associated with share-based payments        | -           | -            | -             | -            | -             | -            | 4.0          | 4.0            |
| <b>At 31 December 2018</b>                                     | <b>47.0</b> | <b>424.7</b> | <b>(47.1)</b> | <b>199.9</b> | <b>(8.9)</b>  | <b>712.7</b> | <b>442.7</b> | <b>1,771.0</b> |
| <b>At 1 January 2018</b>                                       | <b>47.0</b> | <b>424.3</b> | -             | <b>126.1</b> | <b>(40.7)</b> | <b>705.5</b> | <b>457.9</b> | <b>1,720.1</b> |
| Loss for the period                                            | -           | -            | -             | -            | -             | -            | (4.0)        | (4.0)          |
| Other comprehensive income/(expense)                           | -           | -            | -             | 49.8         | (6.5)         | (2.5)        | 17.2         | 58.0           |
| Total comprehensive profit/(loss) for the period               | -           | -            | -             | 49.8         | (6.5)         | (2.5)        | 13.2         | 54.0           |
| Equity dividends paid                                          | -           | -            | -             | -            | -             | -            | (30.1)       | (30.1)         |
| Issue of share capital                                         | -           | 0.1          | -             | -            | -             | -            | -            | 0.1            |
| Movements on cash flow hedges released directly from equity    | -           | -            | -             | (52.3)       | -             | -            | -            | (52.3)         |
| Deferred tax on cash flow hedges released directly from equity | -           | -            | -             | 6.2          | -             | -            | -            | 6.2            |
| Movement on cost of hedging released directly from equity      | -           | -            | -             | -            | 7.0           | -            | -            | 7.0            |
| Deferred tax on cost of hedging released directly from equity  | -           | -            | -             | -            | (1.5)         | -            | -            | (1.5)          |
| Repurchase of Shares <sup>(1)</sup>                            | -           | -            | (12.9)        | -            | -             | -            | -            | (12.9)         |
| Movement in equity associated with share-based payments        | -           | -            | -             | -            | -             | -            | 2.1          | 2.1            |
| <b>At 30 June 2018</b>                                         | <b>47.0</b> | <b>424.4</b> | <b>(12.9)</b> | <b>129.8</b> | <b>(41.7)</b> | <b>703.0</b> | <b>443.1</b> | <b>1,692.7</b> |
| <b>At 1 January 2019</b>                                       | <b>47.0</b> | <b>424.7</b> | <b>(47.1)</b> | <b>199.9</b> | <b>(8.9)</b>  | <b>712.7</b> | <b>442.7</b> | <b>1,771.0</b> |
| Profit for the period                                          | -           | -            | -             | -            | -             | -            | 3.9          | 3.9            |
| Other comprehensive income                                     | -           | -            | -             | 139.2        | 29.2          | (0.7)        | (5.9)        | 161.8          |
| Total comprehensive income for the period                      | -           | -            | -             | 139.2        | 29.2          | (0.7)        | (2.0)        | 165.7          |
| Equity dividends paid                                          | -           | -            | -             | -            | -             | -            | (33.5)       | (33.5)         |
| Issue of share capital                                         | 0.3         | 4.1          | -             | -            | -             | -            | -            | 4.4            |

|                                                                |             |              |               |              |             |              |              |                |
|----------------------------------------------------------------|-------------|--------------|---------------|--------------|-------------|--------------|--------------|----------------|
| Movements on cash flow hedges released directly from equity    | -           | -            | -             | (59.0)       | -           | -            | -            | (59.0)         |
| Deferred tax on cash flow hedges released directly from equity | -           | -            | -             | 11.2         | -           | -            | -            | 11.2           |
| Movement on cost of hedging released directly from equity      | -           | -            | -             | -            | 1.0         | -            | -            | 1.0            |
| Deferred tax on cost of hedging released directly from equity  | -           | -            | -             | -            | (0.2)       | -            | -            | (0.2)          |
| Repurchase of shares <sup>(1)</sup>                            | -           | -            | (3.3)         | -            | -           | -            | -            | (3.3)          |
| Movement in equity associated with share-based payments        | -           | -            | -             | -            | -           | -            | 1.6          | 1.6            |
| <b>At 30 June 2019</b>                                         | <b>47.3</b> | <b>428.8</b> | <b>(50.4)</b> | <b>291.3</b> | <b>21.1</b> | <b>712.0</b> | <b>408.8</b> | <b>1,858.9</b> |

(1) Repurchase of shares reflects the cost of acquiring ordinary shares as part of the share buy-back programme completed on 21 January 2019. At 30 June 2019 these shares have not been cancelled and are recognised as treasury shares.

(2) Results for six months ended 30 June 2018 have been restated to reflect the revised presentation of the statement of changes in equity adopted in the Annual Report and Accounts for the year ended 31 December 2018.

## Condensed consolidated cash flow statement

|                                                                   | Notes | Six months ended 30 June  |                           | Year ended              |
|-------------------------------------------------------------------|-------|---------------------------|---------------------------|-------------------------|
|                                                                   |       | 2019<br>(Unaudited)<br>£m | 2018<br>(Unaudited)<br>£m | 2018<br>(Audited)<br>£m |
| <b>Cash generated from operations</b>                             | 11    | <b>226.5</b>              | 121.0                     | 336.4                   |
| Income taxes (paid)/refunded                                      |       | (7.3)                     | 7.4                       | (1.0)                   |
| Other gains                                                       |       | 0.7                       | 0.9                       | 0.4                     |
| Interest paid                                                     |       | (23.0)                    | (17.9)                    | (25.9)                  |
| Interest received                                                 |       | 0.2                       | 0.4                       | 1.2                     |
| <b>Net cash from operating activities</b>                         |       | <b>197.1</b>              | 111.8                     | 311.1                   |
| <b>Cash flows from investing activities</b>                       |       |                           |                           |                         |
| Purchases of property, plant and equipment                        |       | (55.2)                    | (32.6)                    | (103.8)                 |
| Purchases of intangible assets                                    |       | (12.5)                    | (15.2)                    | (28.8)                  |
| Other investments                                                 |       | -                         | -                         | (0.9)                   |
| Acquisition of subsidiaries                                       |       | (691.7)                   | -                         | -                       |
| <b>Net cash used in investing activities</b>                      |       | <b>(759.4)</b>            | (47.8)                    | (133.5)                 |
| <b>Cash flows from financing activities</b>                       |       |                           |                           |                         |
| Equity dividends paid                                             | 7     | (33.5)                    | (30.1)                    | (52.5)                  |
| Proceeds from issue of share capital                              |       | 4.4                       | 0.1                       | 0.4                     |
| Purchases of own shares                                           |       | (3.3)                     | (12.9)                    | (47.1)                  |
| Repayment of borrowings                                           | 10    | (150.0)                   | (209.0)                   | (218.5)                 |
| New borrowings drawn down                                         | 10    | 702.9                     | 213.3                     | 213.3                   |
| Other financing costs paid                                        |       | (4.1)                     | (3.7)                     | (7.6)                   |
| <b>Net cash generated from/(absorbed by) financing activities</b> |       | <b>516.4</b>              | (42.3)                    | (112.0)                 |
| <b>Net (decrease)/increase in cash and cash equivalents</b>       | 12    | <b>(45.9)</b>             | 21.7                      | 65.6                    |
| Cash and cash equivalents at beginning of the period              |       | 289.0                     | 222.3                     | 222.3                   |
| Effect of changes in foreign exchange rates                       |       | 1.2                       | 1.3                       | 1.1                     |
| <b>Cash and cash equivalents at end of the period</b>             |       | <b>244.3</b>              | 245.3                     | 289.0                   |

## Notes to the Condensed Consolidated Interim Financial Statements

## 1. General information

These notes provide additional information about the disclosures within the Condensed Consolidated Interim Financial Statements. Further information can be found in our 2018 Annual Report and Accounts on pages 123-181.

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

## 2. Segmental reporting

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

- Generation: power generation activities in the UK;
- Pellet Production: production of sustainable compressed wood pellets at our processing facilities in the US; and
- Customers: the supply of electricity and gas to business customers in the UK.

The operating segments have been renamed to align more closely with the Group's strategy but are otherwise consistent with the prior year. The generation assets acquired on 31 December 2018 (see note 9), form part of the Generation segment.

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

Operating costs are allocated to segments to the extent that they are directly attributable to the activities of that segment. In addition, the Group incurs centralised costs of providing certain corporate functions, which we refer to as our Core Services.

### Seasonality of trading

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

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

### Segment revenues and results

The following is an analysis of the Group's performance by reporting segment for the half year ended 30 June 2019. The Board monitors the Adjusted Results for the Group by operating segment as presented in the tables below:

#### Six months ended 30 June 2019 (Unaudited)

|                                 | Generation<br>£m | Customers<br>£m | Pellet<br>Production<br>£m | Intra-group<br>eliminations<br>£m | Adjusted<br>Results<br>£m | Exceptional<br>items and<br>certain<br>remeasure-<br>ments<br>£m | Total<br>Results<br>£m |
|---------------------------------|------------------|-----------------|----------------------------|-----------------------------------|---------------------------|------------------------------------------------------------------|------------------------|
| <b>Revenue</b>                  |                  |                 |                            |                                   |                           |                                                                  |                        |
| External sales                  | 1,098.4          | 1,128.1         | 0.1                        | -                                 | 2,226.6                   | 5.8                                                              | 2,232.4                |
| Inter-segment<br>sales          | 647.1            | -               | 96.9                       | (744.0)                           | -                         | -                                                                | -                      |
| <b>Total revenue</b>            | <b>1,745.5</b>   | <b>1,128.1</b>  | <b>97.0</b>                | <b>(744.0)</b>                    | <b>2,226.6</b>            | <b>5.8</b>                                                       | <b>2,232.4</b>         |
| <b>Segment<br/>gross profit</b> | <b>261.7</b>     | <b>71.5</b>     | <b>32.9</b>                | <b>(2.4)</b>                      | <b>363.7</b>              | <b>1.4</b>                                                       | <b>365.1</b>           |

|                                     |              |            |            |              |                                          |
|-------------------------------------|--------------|------------|------------|--------------|------------------------------------------|
| <b>Segment Adjusted EBITDA</b>      | <b>147.6</b> | <b>8.8</b> | <b>7.6</b> | <b>(2.4)</b> | <b>161.6</b>                             |
| Core Services                       |              |            |            |              | <b>(23.6)</b>                            |
| <b>Consolidated Adjusted EBITDA</b> |              |            |            |              | <b>138.0</b>                             |
| Acquisition and restructuring costs |              |            |            |              | - (2.7) (2.7)                            |
| Depreciation and amortisation       |              |            |            |              | <b>(102.6)</b> - <b>(102.6)</b>          |
| <b>Operating profit</b>             |              |            |            |              | <b>35.4</b> <b>(1.3)</b> <b>34.1</b>     |
| Net finance costs                   |              |            |            |              | <b>(28.3)</b> <b>(2.3)</b> <b>(30.6)</b> |
| Foreign exchange gains and losses   |              |            |            |              |                                          |
| <b>Profit before tax</b>            |              |            |            |              | <b>7.1</b> <b>(3.6)</b> <b>3.5</b>       |

**Six months ended 30 June 2018 (Unaudited)**  
**Restated <sup>(1)</sup>**

|                                     | <b>Generation<br/>£m</b> | <b>Customers<br/>£m</b> | <b>Pellet<br/>Production<br/>£m</b> | <b>Intra-group<br/>eliminations<br/>£m</b> | <b>Adjusted<br/>Results<br/>£m</b> | <b>Exceptional<br/>items and<br/>certain<br/>remeasure-<br/>ments<br/>£m</b> | <b>Total<br/>Results<br/>£m</b> |
|-------------------------------------|--------------------------|-------------------------|-------------------------------------|--------------------------------------------|------------------------------------|------------------------------------------------------------------------------|---------------------------------|
| <b>Revenue</b>                      |                          |                         |                                     |                                            |                                    |                                                                              |                                 |
| External sales                      | 969.7                    | 1,109.3                 | -                                   | -                                          | 2,079.0                            | (10.5)                                                                       | 2,068.5                         |
| Inter-segment sales                 | 481.1                    | -                       | 95.3                                | (576.4)                                    | -                                  | -                                                                            | -                               |
| <b>Total revenue</b>                | <b>1,450.8</b>           | <b>1,109.3</b>          | <b>95.3</b>                         | <b>(576.4)</b>                             | <b>2,079.0</b>                     | <b>(10.5)</b>                                                                | <b>2,068.5</b>                  |
| <b>Segment gross profit</b>         | <b>172.3</b>             | <b>73.9</b>             | <b>28.8</b>                         | <b>3.0</b>                                 | <b>278.0</b>                       | <b>24.4</b>                                                                  | <b>302.4</b>                    |
| <b>Segment Adjusted EBITDA</b>      | <b>88.0</b>              | <b>15.6</b>             | <b>9.8</b>                          | <b>3.1</b>                                 | <b>116.5</b>                       |                                                                              |                                 |
| Core Services                       |                          |                         |                                     |                                            | <b>(14.9)</b>                      |                                                                              |                                 |
| <b>Consolidated Adjusted EBITDA</b> |                          |                         |                                     |                                            | <b>101.6</b>                       |                                                                              |                                 |
| Depreciation and amortisation       |                          |                         |                                     |                                            | <b>(82.6)</b>                      | -                                                                            | <b>(82.6)</b>                   |
| Asset obsolescence charges          |                          |                         |                                     |                                            | -                                  | <b>(26.8)</b>                                                                | <b>(26.8)</b>                   |
| Loss on disposal                    |                          |                         |                                     |                                            | <b>(1.2)</b>                       | -                                                                            | <b>(1.2)</b>                    |
| Acquisition and restructuring costs |                          |                         |                                     |                                            | -                                  | <b>(3.1)</b>                                                                 | <b>(3.1)</b>                    |

|                                 |        |        |        |
|---------------------------------|--------|--------|--------|
| <b>Operating profit</b>         | 17.8   | (5.5)  | 12.3   |
| Net finance costs               | (16.4) | (7.2)  | (23.6) |
| <b>Profit/(loss) before tax</b> | 1.4    | (12.7) | (11.3) |

(1) Results for six months ended 30 June 2018 have been restated to reflect the revised presentation of the income statement adopted in the Group's Annual Report and Accounts for the year ended 31 December 2018.

|                                     | Year ended 31 December 2018 (Audited) |                 |                            |                                   |                           |                                                                  |                        |
|-------------------------------------|---------------------------------------|-----------------|----------------------------|-----------------------------------|---------------------------|------------------------------------------------------------------|------------------------|
|                                     | Generation<br>£m                      | Customers<br>£m | Pellet<br>Production<br>£m | Intra-group<br>eliminations<br>£m | Adjusted<br>Results<br>£m | Exceptional<br>items and<br>certain<br>remeasure-<br>ments<br>£m | Total<br>Results<br>£m |
| <b>Revenue</b>                      |                                       |                 |                            |                                   |                           |                                                                  |                        |
| External sales                      | 1,994.9                               | 2,242.4         | -                          | -                                 | 4,237.3                   | (8.3)                                                            | 4,229.0                |
| Inter-segment sales                 | 1,336.7                               | -               | 213.7                      | (1,550.4)                         | -                         | -                                                                | -                      |
| <b>Total revenue</b>                | 3,331.6                               | 2,242.4         | 213.7                      | (1,550.4)                         | 4,237.3                   | (8.3)                                                            | 4,229.0                |
| <b>Segment gross profit</b>         | 396.0                                 | 143.4           | 65.1                       | (3.5)                             | 601.0                     | 38.4                                                             | 639.4                  |
| <b>Segment Adjusted EBITDA</b>      | 232.4                                 | 28.2            | 20.8                       | (3.5)                             | 277.9                     |                                                                  |                        |
| Core Services                       |                                       |                 |                            |                                   | (28.3)                    |                                                                  |                        |
| <b>Consolidated Adjusted EBITDA</b> |                                       |                 |                            |                                   | 249.6                     |                                                                  |                        |
| Acquisition and restructuring costs |                                       |                 |                            |                                   | -                         | (27.7)                                                           | (27.7)                 |
| Depreciation and amortisation       |                                       |                 |                            |                                   | (173.8)                   | (26.8)                                                           | (200.6)                |
| Losses on disposals                 |                                       |                 |                            |                                   | (3.9)                     | -                                                                | (3.9)                  |
| Other gains                         |                                       |                 |                            |                                   | 4.1                       | -                                                                | 4.1                    |
| <b>Operating profit</b>             |                                       |                 |                            |                                   | 76.0                      | (16.1)                                                           | 59.9                   |
| Net finance costs                   |                                       |                 |                            |                                   | (39.2)                    | (7.2)                                                            | (46.4)                 |
| Foreign exchange gains              |                                       |                 |                            |                                   | 0.3                       | -                                                                | 0.3                    |
| <b>Profit before tax</b>            |                                       |                 |                            |                                   | 37.1                      | (23.3)                                                           | 13.8                   |

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's financial statements.

#### Capital expenditure by segment

Assets and working capital are monitored on a consolidated basis; however, spend on capital projects is monitored by operating segment.

| Capital additions to intangible assets<br>30 June | Capital additions to property, plant and equipment<br>30 June | Capital additions to intangible assets<br>30 June | Capital additions to property, plant and equipment<br>30 June | Capital additions to intangible assets<br>31 December | Capital additions to property, plant and equipment<br>31 December |
|---------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------|
|---------------------------------------------------|---------------------------------------------------------------|---------------------------------------------------|---------------------------------------------------------------|-------------------------------------------------------|-------------------------------------------------------------------|



|                                | 2019<br>Unaudited<br>£m | 2019<br>Unaudited<br>£m | 2018<br>Unaudited<br>£m | 2018<br>Unaudited<br>£m | 2018<br>Audited<br>£m | 2018<br>Audited<br>£m |
|--------------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-----------------------|-----------------------|
| Customers                      | 9.9                     | 0.2                     | 8.6                     | 2.5                     | 28.3                  | 2.2                   |
| Generation                     | 0.5                     | 44.3                    | 6.0                     | 19.5                    | -                     | 86.5                  |
| Pellet Production              | 0.1                     | 4.1                     | 0.2                     | 6.4                     | 0.3                   | 20.2                  |
| Core Services<br>(unallocated) | 0.5                     | -                       | 0.4                     | 2.3                     | 0.3                   | 4.7                   |
| <b>Total</b>                   | <b>11.0</b>             | <b>48.6</b>             | <b>15.2</b>             | <b>30.7</b>             | <b>28.9</b>           | <b>113.6</b>          |

During the second half of 2018, certain items of WIP were reclassified between intangible assets and property, plant and equipment.

Total cash outflows in relation to capital expenditure during the six months ended 30 June 2019 were £67.7 million (six months ended 30 June 2018: £47.8 million).

### Major customers

Total revenue for the six months ended 30 June 2019 includes £237.4 million from one customer (six months ended 30 June 2018: £297.1 million from one customer) that represents 10% or more of the Group's total revenue for the period. These revenues arose in the Generation segment.

### 3. Revenue

Revenue represents amounts receivable from goods or services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes and excluding transactions between Group companies.

During the period, the Group made sales (and related purchases) of ROCs to help optimise our working capital position. External sales of ROCs below include £237.4 million of such sales (year ended 31 December 2018: £555.8 million), with a similar value reflected in cost of sales.

As described in further detail on page 40 of the Group's 2018 Annual Report and Accounts, certain electricity sales in the Generation segment are typically made under forward-dated contracts with customers. Between inception and maturity these contracts meet the definition of a derivative financial instrument and are measured at fair value on the Group's balance sheet (see note 14). Fair value gains and losses on power sales contracts that have not matured are shown as certain remeasurements within revenue. At maturity, revenue is recognised in the Group's Adjusted Results at the price agreed in the contract, reflecting the cash received for the delivery of power.

The sources of income were as follows:

|                                            | Six months ended 30 June 2019 (unaudited) |                   |                |
|--------------------------------------------|-------------------------------------------|-------------------|----------------|
|                                            | External<br>£m                            | Intra-group<br>£m | Total<br>£m    |
| <b>Generation</b>                          |                                           |                   |                |
| Electricity sales                          | 607.0                                     | 647.1             | 1,254.1        |
| ROC sales                                  | 309.6                                     | -                 | 309.6          |
| CfD income                                 | 117.0                                     | -                 | 117.0          |
| Ancillary services                         | 31.0                                      | -                 | 31.0           |
| Other income                               | 33.8                                      | -                 | 33.8           |
| <b>Total</b>                               | <b>1,098.4</b>                            | <b>647.1</b>      | <b>1,745.5</b> |
| <b>Customers</b>                           |                                           |                   |                |
| Electricity and gas sales                  | 1,125.8                                   | -                 | 1,125.8        |
| Other income                               | 2.3                                       | -                 | 2.3            |
| <b>Total</b>                               | <b>1,128.1</b>                            | <b>-</b>          | <b>1,128.1</b> |
| <b>Pellet Production</b>                   |                                           |                   |                |
| Pellet sales                               | -                                         | 96.9              | 96.9           |
| Other income                               | 0.1                                       | -                 | 0.1            |
| <b>Total</b>                               | <b>0.1</b>                                | <b>96.9</b>       | <b>97.0</b>    |
| Elimination of intra-group sales           | -                                         | (744.0)           | (744.0)        |
| <b>Total adjusted consolidated revenue</b> | <b>2,226.6</b>                            | <b>-</b>          | <b>2,226.6</b> |
| Certain remeasurements                     | 5.8                                       | -                 | 5.8            |
| <b>Total consolidated revenue</b>          | <b>2,232.4</b>                            | <b>-</b>          | <b>2,232.4</b> |

Six months ended 30 June 2018 (unaudited)  
Restated

|                                            | External<br>£m | Intra-group<br>£m | Total<br>£m    |
|--------------------------------------------|----------------|-------------------|----------------|
| <b>Generation</b>                          |                |                   |                |
| Electricity sales                          | 434.5          | 481.0             | 915.5          |
| ROC and LEC sales                          | 338.6          | 0.1               | 338.7          |
| CfD income                                 | 165.1          | -                 | 165.1          |
| Ancillary services                         | 9.1            | -                 | 9.1            |
| Other income                               | 22.4           | -                 | 22.4           |
| <b>Total</b>                               | <b>969.7</b>   | <b>481.1</b>      | <b>1,450.8</b> |
| <b>Customers</b>                           |                |                   |                |
| Electricity and gas sales                  | 1,107.7        | -                 | 1,107.7        |
| Other income                               | 1.6            | -                 | 1.6            |
| <b>Total</b>                               | <b>1,109.3</b> | <b>-</b>          | <b>1,109.3</b> |
| <b>Pellet Production</b>                   |                |                   |                |
| Pellet sales                               | -              | 95.3              | 95.3           |
| <b>Total</b>                               | <b>-</b>       | <b>95.3</b>       | <b>95.3</b>    |
| Elimination of intra-group sales           | -              | (576.4)           | (576.4)        |
| <b>Total adjusted consolidated revenue</b> | <b>2,079.0</b> | <b>-</b>          | <b>2,079.0</b> |
| Certain remeasurements                     | (10.5)         | -                 | (10.5)         |
| <b>Total consolidated revenue</b>          | <b>2,068.5</b> | <b>-</b>          | <b>2,068.5</b> |

The comparative period for 30 June 2018 has been restated to include certain remeasurements in Total consolidated revenue.

## Year ended 31 December 2018 (audited)

|                                            | External<br>£m | Intra-group<br>£m | Total<br>£m    |
|--------------------------------------------|----------------|-------------------|----------------|
| <b>Generation</b>                          |                |                   |                |
| Electricity sales                          | 983.4          | 1,020.4           | 2,003.8        |
| ROC and LEC sales                          | 664.5          | 316.3             | 980.8          |
| CfD income                                 | 321.5          | -                 | 321.5          |
| Ancillary services                         | 18.8           | -                 | 18.8           |
| Other income                               | 6.7            | -                 | 6.7            |
| <b>Total</b>                               | <b>1,994.9</b> | <b>1,336.7</b>    | <b>3,331.6</b> |
| <b>Customers</b>                           |                |                   |                |
| Electricity and gas sales                  | 2,195.9        | -                 | 2,195.9        |
| Other income                               | 46.5           | -                 | 46.5           |
| <b>Total</b>                               | <b>2,242.4</b> | <b>-</b>          | <b>2,242.4</b> |
| <b>Pellet Production</b>                   |                |                   |                |
| Pellet sales                               | -              | 213.7             | 213.7          |
| <b>Total</b>                               | <b>-</b>       | <b>213.7</b>      | <b>213.7</b>   |
| Elimination of intra-group sales           | -              | (1,550.4)         | (1,550.4)      |
| <b>Total adjusted consolidated revenue</b> | <b>4,237.3</b> | <b>-</b>          | <b>4,237.3</b> |
| Certain remeasurements                     | (8.3)          | -                 | (8.3)          |
| <b>Total consolidated revenue</b>          | <b>4,229.0</b> | <b>-</b>          | <b>4,229.0</b> |

#### 4. Net interest and other finance charges

Finance costs reflect expenses incurred in managing our debt structure (such as interest payable on our bonds) as well as foreign exchange gains and losses, the unwinding of discount on provisions and net interest charged on the Group's defined benefit pension scheme obligation, offset by interest income that the Group generates through efficient use of short-term cash surpluses.

|  | Six months ended 30 June<br>2019 | Year ended<br>31 December<br>2018 |
|--|----------------------------------|-----------------------------------|
|  | (Unaudited)                      | (Audited)                         |

|                                                                                | £m            | £m            | £m            |
|--------------------------------------------------------------------------------|---------------|---------------|---------------|
| <b>Interest payable and similar charges:</b>                                   |               |               |               |
| Interest payable on borrowings                                                 | (26.6)        | (18.6)        | (36.3)        |
| Interest on lease liabilities                                                  | (0.5)         | -             | -             |
| Unwinding of discount on provisions                                            | (4.0)         | (0.8)         | (0.9)         |
| Amortisation of deferred finance costs                                         | (1.5)         | (1.6)         | (3.1)         |
| Net finance cost in respect of defined benefit scheme                          | 0.4           | 0.1           | 0.1           |
| Other financing charges                                                        | -             | -             | (0.2)         |
| <b>Total interest payable and similar charges included in adjusted results</b> | <b>(32.2)</b> | <b>(20.9)</b> | <b>(40.4)</b> |
| <b>Interest receivable:</b>                                                    |               |               |               |
| Interest income on bank deposits                                               | 0.4           | 0.4           | 1.2           |
| <b>Total interest receivable included in adjusted results</b>                  | <b>0.4</b>    | <b>0.4</b>    | <b>1.2</b>    |
| <b>Foreign exchange gains included in adjusted results</b>                     | <b>3.5</b>    | <b>4.1</b>    | <b>0.3</b>    |
| <b>Total recurring net interest charge included in adjusted results</b>        | <b>(28.3)</b> | <b>(16.4)</b> | <b>(38.9)</b> |
| <b>Certain remeasurements</b>                                                  |               |               |               |
| Gains on derivative contracts recognised in interest                           | 0.2           | -             | -             |
| <b>Exceptional costs of debt restructure:</b>                                  |               |               |               |
| Fees to exit existing facilities                                               | -             | (2.0)         | (2.0)         |
| Release of deferred costs in relation to previous and temporary facilities     | (2.5)         | (5.2)         | (5.2)         |
| <b>Total other finance charges</b>                                             | <b>(2.3)</b>  | <b>(7.2)</b>  | <b>(7.2)</b>  |
| <b>Total net interest charge</b>                                               | <b>(30.6)</b> | <b>(23.6)</b> | <b>(46.1)</b> |

Interest on lease liabilities represents interest calculated at the effective interest rate on all lease liabilities which are now recognised on the balance sheet following the adoption of IFRS 16 from 1 January 2019 (see note 20). Prior periods have not been restated.

Following reductions in gilt yields, the unwinding of discount in provisions in the period ended 30 June 2019 includes a non-cash charge of £3.1 million arising from a reduction in the discount rate applied in the calculation of the Group's provisions for reinstatement. The calculation uses a risk-free discount rate reflecting the risks embedded within the cash flows (see page 152 of the Group's 2018 Annual Report and Accounts for further details).

## 5. Taxation

The tax credit includes both current and deferred tax. The tax credit is based upon the expected tax rate for the full year which is applied to taxable profits/(losses) for the interim period, together with any charge or credit in respect of prior years and the tax effect of any exceptional items (see note 6).

Current tax, including UK corporation tax and US tax, is calculated as the income taxes payable on taxable profits, or recoverable in respect of tax losses for a period. Deferred tax is calculated as the income taxes payable or recoverable in future periods in respect of temporary differences which may be taxable or allowed as deductible. Temporary differences themselves represent the difference between the carrying amount of an asset or liability in the financial statements and the relevant tax base thereon.

|                              | Six months ended 30 June | Year ended 31 December |
|------------------------------|--------------------------|------------------------|
|                              | 2019                     | 2018                   |
|                              | (Unaudited)              | (Audited)              |
|                              | £m                       | £m                     |
| <b>Tax credit comprises:</b> |                          |                        |

|                                           | Six months ended 30 June  |                           | Year ended                             |
|-------------------------------------------|---------------------------|---------------------------|----------------------------------------|
|                                           | 2019<br>(Unaudited)<br>£m | 2018<br>(Unaudited)<br>£m | 31 December<br>2018<br>(Audited)<br>£m |
| <b>Current tax</b>                        |                           |                           |                                        |
| - Current period charge                   | 10.9                      | 8.6                       | 17.0                                   |
| - Adjustments in respect of prior periods | -                         | (4.9)                     | (5.2)                                  |
| <b>Deferred tax</b>                       |                           |                           |                                        |
| - Before impact of corporation tax change | (10.3)                    | (11.0)                    | (18.4)                                 |
| - Adjustments in respect of prior periods | (1.0)                     | -                         | -                                      |
| - Impact of corporation tax change        | -                         | -                         | 0.2                                    |
| <b>Tax credit</b>                         | <b>(0.4)</b>              | <b>(7.3)</b>              | <b>(6.4)</b>                           |

The expected tax rate for the full year is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims.

## 6. Certain remeasurements and exceptional items

The Group reflects its underlying financial results in the Adjusted Results column of the Condensed consolidated income statement. In order to provide a clear and consistent view of trading performance, certain remeasurements and exceptional items are presented in a separate column. The Group believes that this presentation provides useful information about the financial performance of the business and is consistent with the way executive management and the Board assess the performance of the business.

The Group has a framework for the determination of transactions as exceptional. Transactions presented as exceptional are approved by the Audit Committee.

In these financial statements, the following transactions have been designated as exceptional items and presented separately in current and previous periods:

### *Acquisition and restructuring costs which include:*

- legal and professional fees and severance costs, associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) for the six months ended 30 June 2019 and year ended 31 December 2018);
- costs associated with the restructuring of the Pellet Production and Customers Businesses (six months ended 30 June 2018 and year ended 31 December 2018);

### *Costs incurred as a result of refinancing the Group's debt which include:*

- facility break costs and the amortisation of deferred finance costs associated with the redeemed facilities (six months ended 30 June 2019, six months ended 30 June 2018 and year ended 31 December 2018); and

### *Asset obsolescence charges relating to:*

- coal-specific assets written off following the conversion of the fourth unit at Drax Power Station to run on biomass (six months ended 30 June 2018 and year ended 31 December 2018).

Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices - i.e. the all-in hedged amount paid or received in respect of delivery of the commodity in question, to better present the trading performance of the Group in Adjusted Results.

|                                                           | Six months ended 30 June  |                                                      | Year ended                             |
|-----------------------------------------------------------|---------------------------|------------------------------------------------------|----------------------------------------|
|                                                           | 2019<br>(Unaudited)<br>£m | 2018<br>Restated <sup>(1)</sup><br>(Unaudited)<br>£m | 31 December<br>2018<br>(Audited)<br>£m |
| <b>Exceptional items:</b>                                 |                           |                                                      |                                        |
| Acquisition and restructuring costs                       | (2.7)                     | (3.1)                                                | (27.7)                                 |
| Asset obsolescence charges                                | -                         | (26.8)                                               | (26.8)                                 |
| <b>Exceptional items included within Operating profit</b> | <b>(2.7)</b>              | <b>(29.9)</b>                                        | <b>(54.5)</b>                          |
| Cost of debt restructuring                                | (2.5)                     | (7.2)                                                | (7.2)                                  |
| <b>Exceptional items included in Profit Before Tax</b>    | <b>(5.2)</b>              | <b>(37.1)</b>                                        | <b>(61.7)</b>                          |
| Taxation on exceptional items <sup>(2)</sup>              | -                         | 6.7                                                  | 9.0                                    |

|                                             |              |        |        |
|---------------------------------------------|--------------|--------|--------|
| <b>Exceptional items after taxation</b>     | <b>(5.2)</b> | (30.4) | (52.7) |
| <b>Remeasurements:</b>                      |              |        |        |
| Net remeasurements included in Gross Profit | 1.4          | 24.4   | 38.4   |
| Net remeasurements included in Interest     | 0.2          | -      | -      |
| Taxation on certain remeasurements          | (0.3)        | (4.6)  | (7.4)  |
| <b>Remeasurement after taxation</b>         | <b>1.3</b>   | 19.8   | 31.0   |
| <b>Reconciliation:</b>                      |              |        |        |
| <b>Adjusted Results</b>                     | <b>7.8</b>   | 6.6    | 41.9   |
| Exceptional items after tax                 | (5.2)        | (30.4) | (52.7) |
| Remeasurements after tax                    | 1.3          | 19.8   | 31.0   |
| <b>Profit/(loss) after tax</b>              | <b>3.9</b>   | (4.0)  | 20.2   |

(1) Results for six months ended 30 June 2018 have been restated to reflect the revised presentation of the income statement adopted in the Group's Annual Report and Accounts for the year ended 31 December 2018.

(2) Taxation on exceptional items is £nil where costs are disallowable for corporation tax purposes.

## 7. Dividends

|                                                                                                                                         | Pence<br>per<br>share | Six months ended 30 June  |                           | Year ended                             |
|-----------------------------------------------------------------------------------------------------------------------------------------|-----------------------|---------------------------|---------------------------|----------------------------------------|
|                                                                                                                                         |                       | 2019<br>(Unaudited)<br>£m | 2018<br>(Unaudited)<br>£m | 31 December<br>2018<br>(Audited)<br>£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 2018 paid 10 May 2019                                                                     | 8.2                   | 33.5                      | -                         | -                                      |
| Interim dividend for the year ended 31 December 2018 paid 12 October 2018                                                               | 5.6                   | -                         | -                         | 22.4                                   |
| Final dividend for the year ended 31 December 2017 paid 11 May 2018                                                                     | 7.4                   | -                         | 30.1                      | 30.1                                   |
|                                                                                                                                         |                       | <b>33.5</b>               | 30.1                      | 52.5                                   |

On 23 July 2019, the Board resolved to pay an interim dividend of 6.4 pence per share (£25.2 million), representing 40% of the expected full year dividend in line with our dividend policy. The interim dividend will be paid on 11 October 2019 and shares will be marked ex-dividend on 20 September 2019.

### Distributable profits

The capacity of the Group to make dividend payments is determined by the availability of retained distributable profits and cash resources.

The Parent Company has distributable reserves at 30 June 2019 of £231.4 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

The majority of the Group's distributable reserves are held in intermediate holding companies and operating subsidiaries. Management actively monitors the level of distributable reserves in each company in the Group, ensuring adequate reserves are available for upcoming dividend payments and that the Parent Company has access to these reserves.

The immediate cash resources of the Group of £244.3 million, comprised of cash and cash equivalents that are accessible on demand, and the recent history of operating cash generation are set out in note 11.

The Group's financing facilities (see note 10) place certain conditions on the amount of dividend payments that can be made in any year. The Group expects to be able to make dividend payments, in line with our policy and within these conditions for the foreseeable future.

## 8. Earnings per share

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

Six months ended 30 June      Year ended

|                                                                                                         | 2019<br>(Unaudited) | 2018<br>(Unaudited) | 31 December<br>2018<br>(Audited) |
|---------------------------------------------------------------------------------------------------------|---------------------|---------------------|----------------------------------|
| <b>Earnings/(loss) attributable to equity holders of the Company £m</b>                                 | <b>3.9</b>          | <b>(4.0)</b>        | 20.2                             |
| <b>Number of shares:</b>                                                                                |                     |                     |                                  |
| <b>Weighted average number of ordinary shares for the purposes of basic loss per share (millions)</b>   | <b>394.3</b>        | 406.7               | 402.4                            |
| Effect of dilutive potential ordinary shares under share plans (millions)                               | <b>2.7</b>          | 2.2                 | 4.5                              |
| <b>Weighted average number of ordinary shares for the purposes of diluted loss per share (millions)</b> | <b>397.0</b>        | 408.9               | 406.9                            |
| <b>Earnings/(loss) per share - basic (pence)</b>                                                        | <b>1.0</b>          | (1.0)               | 5.0                              |
| <b>Earnings/(loss) per share - diluted (pence)</b>                                                      | <b>1.0</b>          | (1.0)               | 4.9                              |

Shares purchased under the Group's Share buy-back programme (see note 18) are not included in the weighted average calculation of shares. Application of the same calculation to Adjusted profit after tax of £7.8 million results in Adjusted basic EPS of 2.0 pence and Adjusted diluted EPS of 2.0 pence for the six months ended 30 June 2019 (six months ended 30 June 2018: Adjusted basic EPS of 1.6 pence and Adjusted diluted EPS of 1.6 pence).

## 9. Acquisition of ScottishPower Generation Limited

The acquisition of ScottishPower Generation Limited was approved by shareholders on 21 December 2018 and subsequently completed on 31 December 2018. See pages 148-149 of the 2018 Annual Report and Accounts for further details.

ScottishPower Generation Limited was renamed Drax Generation Enterprise Limited (DGE) on 9 January 2019.

During the first half of 2019, the completion statement process in respect of the acquisition has been concluded. This has resulted in some changes to the values of assets and liabilities acquired, principally as a result of differences between estimated and actual amounts that became known between the balance sheet date and finalisation of the completion statement.

As a result, the Group made a further payment in accordance with the terms of the acquisition of £4.8 million, bringing the total fair value of the consideration payable in respect of the acquisition to £691.7 million, following the £686.9 million payment on 2 January 2019. Completion statement adjustments increased the fair value of net assets acquired by £2.5 million, with a corresponding increase to goodwill of £2.3 million. These adjustments have been made retrospectively and, as a result, the balance sheet as at 31 December 2018 has been restated.

The additional consideration was paid in cash on 14 May 2019.

The acquisition remains subject to a risk-sharing mechanism agreed with the vendor in respect of 2019 Capacity Market outcomes. If 100% of Capacity Market payments are not received in the period to 30 September 2019, a further payment will be made either by the Group or by the vendor, the value and beneficiary of which is contingent upon the 2019 gross profit achieved by the acquired assets. The value of any further payment for both parties is capped at £26 million. Full details are set out on the Group's website. ([www.drax.com/cmrisk](http://www.drax.com/cmrisk)). In the event Capacity Market payments remain suspended beyond 2019, the Group will be entitled to no further compensation.

Reflecting the Group's continued belief that the Capacity Market is likely to be reinstated during 2019, no value has been attributed to the risk-sharing mechanism at 30 June 2019 (31 December 2018: £nil).

The fair values of the identifiable assets acquired, and the liabilities assumed, as at 31 December 2018 and at 30 June 2019 following conclusion of the completion statement process, were as follows:

|                                            | As at 31 December<br>2018 | Re-<br>measurements | As at 30 June<br>2019 |
|--------------------------------------------|---------------------------|---------------------|-----------------------|
|                                            | £m                        | £m                  | £m                    |
| <b>Opening balance sheet</b>               |                           |                     |                       |
| Property, plant and equipment              | 690.0                     | -                   | 690.0                 |
| Financial assets                           | 40.7                      | 5.4                 | 46.1                  |
| Financial liabilities                      | (41.0)                    | (2.9)               | (43.9)                |
| Pension surplus                            | 3.8                       | -                   | 3.8                   |
| Provisions                                 | (13.5)                    | -                   | (13.5)                |
| Intangible assets                          | 0.6                       | -                   | 0.6                   |
| Deferred tax liability                     | (68.5)                    | -                   | (68.5)                |
| <b>Total identifiable net assets</b>       | <b>612.1</b>              | <b>2.5</b>          | <b>614.6</b>          |
| Goodwill                                   | 74.8                      | 2.3                 | 77.1                  |
| <b>Fair value of consideration payable</b> | <b>686.9</b>              | <b>4.8</b>          | <b>691.7</b>          |

The changes in financial assets and liabilities principally reflect updated values for short-term trade receivables and payables, to reflect the value of final settlements.

The values shown above remain provisional and subject to further review pending finalisation of the transfer of defined benefit pension obligations (see note 19) and outcomes in respect of the Capacity Market risk-sharing arrangement in particular. The Group expects to conclude on both matters before the end of the year.

Reflecting the provisional nature of the amounts and the focus on integration of the acquired assets into the wider Group, the Group has not yet allocated the provisional goodwill to individual cash generating units. This exercise will be completed before the end of the year.

## 10. Borrowings

On 2 January 2019, the Group drew down £550 million of a £725 million acquisition bridge facility to part-fund the acquisition of ScottishPower Generation Limited (see note 9). The facility has a final maturity date in 13 months, in July 2020 which includes an option to extend by seven months. Interest is paid at a floating rate, paying a step-up margin over LIBOR. At 30 June 2019, the amount outstanding was £400 million.

On 16 May 2019, the Group issued a further \$200 million 6.625% USD loan notes, maturing in 2025, which are listed on the Luxembourg Stock Exchange. The notes were issued at 101.5% of their nominal value and, when swapped back to GBP, have an effective interest rate of 4.74%. The proceeds of the issue were used to repay £150 million of the drawn acquisition bridge facility.

Incremental costs of the new borrowing (£2.8 million) have been deferred and, along with the premium received, are being amortised over the period to maturity of the debt instrument. Deferred costs of £2.5 million in relation to the acquisition bridge facility have been written off in the period (see note 4).

In addition, the Group's financing structure includes £350 million fixed rate loan notes due in 2022, \$300 million fixed rate USD loan notes due in 2025 and a £35 million index-linked term loan due in 2022. The Group also benefits from a £315 million Revolving Credit Facility (RCF).

The loan notes and index-linked loan were fully drawn down at 30 June 2019.

As at 30 June 2019, no cash was drawn under the RCF. The Group has no other undrawn committed borrowing facilities.

The Group's financing structure, including the index-linked loan, the loan notes and the RCF are secured against the assets of a number of the Group's subsidiaries, with the exception of the US subsidiaries' land and buildings.

In addition, the Group has a secured commodity trading line, which allows it to transact prescribed volumes of commodity trades without the requirement to post collateral, and FX trading lines with certain banks. Counterparties to these arrangements are entitled to share in the security as described above. As at 30 June 2019, this value was £nil (30 June 2018: £16.7 million).

Following the adoption of IFRS 16, finance leases have been reclassified to lease liabilities (see note 20). Prior years have not been restated.

### Analysis of borrowings

Changes in borrowings during the period were as follows:

|                                                 | <b>As at 30 June 2019 (Unaudited)</b>                          |                                          |                                  |
|-------------------------------------------------|----------------------------------------------------------------|------------------------------------------|----------------------------------|
|                                                 | <b>Borrowings<br/>before deferred<br/>finance costs<br/>£m</b> | <b>Deferred<br/>finance costs<br/>£m</b> | <b>Net<br/>borrowings<br/>£m</b> |
| <b>Borrowings at 1 January</b>                  | <b>622.9</b>                                                   | <b>(14.8)</b>                            | <b>608.1</b>                     |
| <b>Cash movements:</b>                          |                                                                |                                          |                                  |
| Acquisition bridge facility drawn down          | 550.0                                                          | (1.3)                                    | 548.7                            |
| Repayment of Acquisition bridge facility        | (150.0)                                                        | -                                        | (150.0)                          |
| USD 2025 loan notes drawn down                  | 152.9                                                          | (2.8)                                    | 150.1                            |
| <b>Non-cash movements:</b>                      |                                                                |                                          |                                  |
| Indexation of index-linked loan                 | 0.4                                                            | -                                        | 0.4                              |
| Amortisation of deferred finance costs (note 4) | -                                                              | 4.0                                      | 4.0                              |
| Changes in finance lease liabilities            | (0.5)                                                          | -                                        | (0.5)                            |
| Amortisation of premium                         | (0.1)                                                          | -                                        | (0.1)                            |
| Retranslation of USD 2025 loan notes            | 8.0                                                            | -                                        | 8.0                              |
| <b>Borrowings at 30 June</b>                    | <b>1,183.6</b>                                                 | <b>(14.9)</b>                            | <b>1,168.7</b>                   |

The Group's borrowings at each period end were as follows:

**As at 30 June 2019 (Unaudited)**

|                             | <b>Borrowings<br/>before deferred<br/>finance costs<br/>£m</b> | <b>Deferred<br/>finance costs<br/>£m</b> | <b>Net<br/>borrowings<br/>£m</b> |
|-----------------------------|----------------------------------------------------------------|------------------------------------------|----------------------------------|
| 2022 fixed rate loan notes  | 350.0                                                          | (6.4)                                    | 343.6                            |
| 2025 USD loan notes         | 396.1                                                          | (5.9)                                    | 390.2                            |
| Index-linked loan           | 37.5                                                           | -                                        | 37.5                             |
| Acquisition bridge facility | 400.0                                                          | (2.6)                                    | 397.4                            |
| <b>Total borrowings</b>     | <b>1,183.6</b>                                                 | <b>(14.9)</b>                            | <b>1,168.7</b>                   |
| <b>Split between:</b>       |                                                                |                                          |                                  |
| Current liabilities         | -                                                              | -                                        | -                                |
| Non-current liabilities     | 1,183.6                                                        | (14.9)                                   | 1,168.7                          |

**As at 30 June 2018 (Unaudited)**

|                            | <b>Borrowings<br/>before deferred<br/>finance costs<br/>£m</b> | <b>Deferred finance<br/>costs<br/>£m</b> | <b>Net<br/>borrowings<br/>£m</b> |
|----------------------------|----------------------------------------------------------------|------------------------------------------|----------------------------------|
| 2022 fixed rate loan notes | 350.0                                                          | (8.7)                                    | 341.3                            |
| 2025 USD loan notes        | 227.1                                                          | (3.7)                                    | 223.4                            |
| Indexed-linked loan        | 36.4                                                           | -                                        | 36.4                             |
| US revolving facility      | 9.5                                                            | -                                        | 9.5                              |
| Finance lease liabilities  | 0.8                                                            | -                                        | 0.8                              |
| <b>Total borrowings</b>    | <b>623.8</b>                                                   | <b>(12.4)</b>                            | <b>611.4</b>                     |
| <b>Split between:</b>      |                                                                |                                          |                                  |
| Current liabilities        | 9.6                                                            | -                                        | 9.6                              |
| Non-current liabilities    | 614.2                                                          | (12.4)                                   | 601.8                            |

**As at 31 December 2018 (Audited)**

|                             | <b>Borrowings before<br/>deferred finance<br/>costs<br/>£m</b> | <b>Deferred finance<br/>costs<br/>£m</b> | <b>Net<br/>borrowings<br/>£m</b> |
|-----------------------------|----------------------------------------------------------------|------------------------------------------|----------------------------------|
| 2022 fixed rate loan notes  | 350.0                                                          | (7.6)                                    | 342.4                            |
| 2025 USD loan notes         | 235.3                                                          | (3.4)                                    | 231.9                            |
| Indexed linked loan         | 37.1                                                           | -                                        | 37.1                             |
| Acquisition bridge facility | -                                                              | (3.8)                                    | (3.8)                            |
| Finance lease liabilities   | 0.5                                                            | -                                        | 0.5                              |
| <b>Total borrowings</b>     | <b>622.9</b>                                                   | <b>(14.8)</b>                            | <b>608.1</b>                     |
| <b>Split between:</b>       |                                                                |                                          |                                  |
| Current liabilities         | 0.1                                                            | -                                        | 0.1                              |
| Non-current liabilities     | 622.8                                                          | (14.8)                                   | 608.0                            |

## 11. Cash generated from operations

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



items.

|                                                                | Six months ended 30 June |                   | Year ended      |
|----------------------------------------------------------------|--------------------------|-------------------|-----------------|
|                                                                | 2019                     | 2018              | 31 December     |
|                                                                | (Unaudited)<br>£m        | (Unaudited)<br>£m | (Audited)<br>£m |
| <b>Profit/(loss) for the period</b>                            | <b>3.9</b>               | (4.0)             | 20.2            |
| Adjustments for:                                               |                          |                   |                 |
| Interest payable and other charges                             | <b>31.0</b>              | 24.0              | 47.3            |
| Interest receivable                                            | <b>(0.4)</b>             | (0.4)             | (1.2)           |
| Tax credit (note 5)                                            | <b>(0.4)</b>             | (7.3)             | (6.4)           |
| Depreciation and amortisation                                  | <b>102.6</b>             | 82.6              | 173.8           |
| Losses on disposal                                             | -                        | 1.2               | 3.9             |
| Asset obsolescence                                             | -                        | 26.8              | 26.8            |
| Other non-cash losses                                          | -                        | -                 | 4.3             |
| Certain remeasurements of derivative contracts <sup>(1)</sup>  | <b>55.6</b>              | (27.2)            | (43.3)          |
| Defined benefit pension scheme current service cost            | <b>3.7</b>               | 3.4               | 6.8             |
| Share-based payments charge                                    | <b>1.6</b>               | 2.1               | 4.0             |
| Payments in respect of lease liabilities                       | <b>(2.3)</b>             | -                 | -               |
| <b>Operating cash flows before movement in working capital</b> | <b>195.3</b>             | 101.2             | 236.2           |
| <b>Changes in working capital:</b>                             |                          |                   |                 |
| (Increase)/decrease in inventories                             | <b>(65.4)</b>            | 58.0              | 52.5            |
| Decrease/(increase) in receivables                             | <b>79.6</b>              | 60.8              | (15.4)          |
| Increase in payables                                           | <b>116.4</b>             | 130.3             | 149.4           |
| Decrease/(increase) in carbon assets                           | <b>0.3</b>               | -                 | (3.7)           |
| Increase in ROC assets                                         | <b>(95.5)</b>            | (223.9)           | (71.2)          |
| Total cash released from working capital                       | <b>35.4</b>              | 25.2              | 111.6           |
| Defined benefit pension scheme contributions                   | <b>(4.2)</b>             | (5.4)             | (11.4)          |
| <b>Cash generated from operations</b>                          | <b>226.5</b>             | 121.0             | 336.4           |

(1) Certain remeasurements of derivative contracts includes the effect of non-cash unrealised gains and losses recognised in the income statement and cash realised from derivative contracts designated into hedge relationships under IFRS 9, where the gain or loss is held in the hedge reserve pending release to the income statement in the period the hedged transaction occurs.

Historically, cash from ROCs was typically realised several months after the ROC was earned, at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making sales and purchases during the compliance period. These transactions reduced the overall working capital outflow from ROCs by £77.0 million to £95.5 million (six months ended 30 June 2018: increase in overall outflow of £57.2 million to £223.9 million). We also have access to facilities enabling us to sell trade receivables arising from ROC sales on a non-recourse basis. Utilisation of these facilities was £45.8 million at 30 June 2019 (30 June 2018: £nil).

The Group has a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a liquidity lever for the Group, for which £139.4 million was outstanding at 30 June 2019 (31 December 2018: £87.3 million). The group accelerates payments to certain suppliers, whilst trying to maintain its overall working capital position with the amounts on these facilities falling due between 2 and 60 days from the end of the period.

The Group continues to benefit from a receivables monetisation facility in the Customers business, under which both billed and unbilled trade receivables are sold on a non-recourse basis. There was no change in utilisation of this £150 million facility in the six months ended 30 June 2018 and therefore there was a net £nil impact on cash flows (six months ended 31 December 2018: an increase in utilisation leading to a £31.3 million inflow).

More detail on the Group's approach to working capital and liquidity management is provided in note 13.

## 12. Reconciliation of net debt

The Group defines net debt as total borrowings less cash and cash equivalents. Total borrowings includes external financial debt, such as loan notes, term loans and amounts drawn in cash under revolving credit facilities (see note 10) but excludes other financial liabilities such as lease liabilities calculated in accordance with IFRS 16 (see note 20), pension obligations and trade and other payables.

The table below reconciles net debt in terms of changes in these balances in the period.

As at 30 June

As at 31 December

|                                                  | <b>2019</b><br><b>(Unaudited)</b><br><b>£m</b> | 2018<br>(Unaudited)<br>£m | 2018<br>(Audited)<br>£m |
|--------------------------------------------------|------------------------------------------------|---------------------------|-------------------------|
| <b>Net debt at 1 January</b>                     | <b>(319.1)</b>                                 | (367.4)                   | (367.4)                 |
| (Decrease)/increase in cash and cash equivalents | <b>(45.9)</b>                                  | 21.7                      | 65.6                    |
| Increase in net borrowings                       | <b>(552.7)</b>                                 | (21.8)                    | 4.2                     |
| Effect of changes in foreign exchange rates      | <b>(6.7)</b>                                   | 1.3                       | (21.5)                  |
| <b>Net debt at 30 June / 31 December</b>         | <b>(924.4)</b>                                 | (366.2)                   | (319.1)                 |

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments in respect of the Group's US dollar denominated debt (see note 10). If USD balances are translated at the hedged rate, rather than the rate prevailing at the balance sheet date, net debt would be reduced by £28.5 million to £895.9 million.

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which were previously not held on the balance sheet and disclosed as operating commitments in the Group's 2018 Annual Report and Accounts. At 30 June 2019, these liabilities had a carrying amount of £26.5 million (see note 20).

### 13. Financial risk management

The Group's activities expose it to a variety of financial risks, including commodity price risk, interest rate risk, foreign currency risk, liquidity risk, inflation risk, counterparty risk and credit risk. The Group's overall risk management programme focuses on the unpredictability of commodity and financial markets and seeks to manage potential adverse effects on the Group's financial performance.

The Group uses derivative financial instruments to hedge certain risk exposures. Risk management is overseen by risk management committees which identify, evaluate and hedge financial risks in close coordination with the Group's trading and treasury functions under policies approved by the Board of directors.

#### Commodity price risk

The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, gas, the price of coal, sustainable wood fibre and pellets, other fuels, and CO<sub>2</sub> emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of securing forward power sales, purchases of fuel and CO<sub>2</sub> emissions allowances when profitable to do so and in line with specified limits under approved policies. All commitments to sell power under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of electricity.

The Group purchases sustainable biomass, coal and other fuels under either fixed or variable priced contracts with different maturities principally from a number of international sources. The Group considers all such contracts to be economic hedges. The Group applies the own-use exemption or hedge accounting in accordance with IFRS 9.

Where forward power curves are less liquid, the Group uses financially settled gas sales as a proxy for power to mitigate the risk of power price fluctuations. The Group's Customers business also purchases gas under fixed-price contracts to meet the demand of its energy supply customers and the Generation business as a fuel for its gas-fired generation portfolio.

The Group purchases CO<sub>2</sub> emissions allowances under fixed price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO<sub>2</sub> emissions allowances under fixed price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of CO<sub>2</sub> emissions allowances.

#### Foreign currency risk

The Group is exposed to fluctuations in foreign currency rates resulting from committed and forecast transactions in foreign currencies, principally in relation to purchases of fuel for use in the Generation business. These purchases are typically denominated in US dollars, Canadian dollars or euros.

In order to optimise the cost of funding, the Group has issued foreign currency denominated debt in US dollars. The Group utilises derivative contracts to manage exchange risk on foreign currency debt.

It is the Group's policy to hedge material transactional exposures using a variety of derivatives to fix the sterling value of foreign currency cash flows, except where there is an economic hedge inherent in the transaction. The Group enters into derivative contracts, including forwards and options, to manage its anticipated foreign currency requirements over a rolling five-year period.

The Group has limited exposure to translation risk in relation to its net investment in its US subsidiary, Drax Biomass Inc.

#### Interest rate risk

The Group has limited exposure to interest rate risk, principally in relation to cash and cash equivalents and to the extent arising from floating rate debt instruments. At 30 June 2019, the only floating rate debt instrument is the £400 million drawn under the acquisition bridge facility.

The Group has taken out fixed to fixed cross-currency interest rate swaps to hedge the future cash flows associated with the \$500 million 6.625% USD 2025 fixed rate loan notes effectively converting them to sterling fixed rate cash flows.

The Group is also exposed to increasing interest rates in advance of refinancing the remaining balance of the acquisition bridge facility and has taken out interest rate swaps to hedge the estimated future cash flows associated with the repayment of the highly probable forecast debt.

The return generated on the Group's cash balance, or on amounts drawn on the revolving credit facility, are also exposed to movements in short-term interest rates. The Group manages cash balances to protect against adverse changes in rates whilst retaining liquidity.

### **Liquidity risk**

The treasury function is responsible for liquidity, funding and settlement management under policies approved by the Board of directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments. The Group maintains a mixture of cash and cash equivalents and committed and uncommitted facilities in order to ensure sufficient funding for business requirements.

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items (principally those related to ROC sales and Customers power sales). In each case this is undertaken on a non-recourse basis and accordingly the ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing over a variety of payables, whilst providing a liquidity benefit to the Group. Some suppliers have access to a supply chain finance facility which allows them to benefit from the Group's credit profile.

These facilities and activities allow us to optimise and normalise our working capital position and enable the Group to manage the cash flow impacts arising from the inherent seasonality of the UK energy market.

### **Counterparty risk**

As the Group relies on third party suppliers and counterparties for the delivery of currency, sustainable biomass and other goods and services, it is exposed to the risk of non-performance by these third-party suppliers. If a large supplier were to fall into financial difficulty and/or fail to deliver against its contract with the Group, there would be additional costs associated with securing the lost goods or services from other suppliers.

The Group enters into contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause the Group financial distress or increase the risk profile of the Group.

### **Credit risk**

The Group's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date.

Of the Group's three operating segments, two are exposed to different levels and concentrations of credit risk, largely reflecting the number, size and nature of their respective customers. The Pellet Production segment only trades intra-group.

The highest risk is in the Customers segment, with a high number of customers of varying sizes operating in a variety of markets. In particular, Opus Energy carries lower concentrations but higher levels of credit risk owing to a customer base comprised largely of smaller retail and commercial entities.

In the Customers segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector. In addition, the Customers business extended its trade credit insurance programme to increase its mitigation to credit risk. In addition, credit risk is transferred on the billed and unbilled receivables monetised through the non-recourse facility described in note 11.

For the Generation segment, the risk arises from treasury, trading and energy procurement activities, as well as the sale of by-products from generation activities. Wholesale counterparty credit exposures are monitored by individual counterparties and by category of credit rating and are subject to approved limits. The Group uses master netting agreements to reduce credit risk and net settles payments with counterparties where net settlement provisions exist. In addition, the Group employs a variety of other methods to mitigate credit risk: margining, various forms of parent company guarantee, deed of charge, cash collateral and letter of credit. The majority of the Generation business's credit risk is with counterparties in related energy industries or with financial institutions. In addition, where deemed appropriate, the Group has historically purchased credit default swaps.

The investment of surplus cash is undertaken with the objective of ensuring that there is sufficient liquidity at all times, so that funds are available to meet liabilities as they fall due, whilst securing a return from invested funds and preserving the capital value of those funds within Board-approved policies. These policies manage credit risk exposure by setting out the minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

## Inflation risk

The Group is exposed to inflation risk on elements of its revenues and cost base. The Group's ROC revenues are linked to UK RPI and its Contract for Difference revenue is linked to UK CPI. In addition a proportion of the Group's fuel costs are linked to US/CAD CPI. The Group has entered UK CPI swaps to hedge the future cashflows relating to a proportion of its exposure. The Group also benefits from a natural hedge arising from its inflation-linked borrowings (see note 10).

## Capital management

The Group manages its capital to ensure it is able to continue as a going concern and maintain its credit rating while maximising the return to shareholders through the optimisation of the debt and equity balance. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings as disclosed in note 10 less cash and cash equivalents.

## 14. Derivative financial instruments

As described above, the Group makes extensive use of derivative financial instruments for the purpose of managing its exposure to the risks set out in note 13.

Where possible, the Group has taken advantage of the own-use exemption which allows qualifying contracts to be excluded from fair value mark-to-market accounting. This applies to certain contracts for physical commodities entered into and held for our own purchase, sale or usage requirements, including forward contracts for the purchase of biomass, ROCs and coal from domestic sources.

Contracts which do not qualify for the own-use exemption - principally power, gas, financial oil, financial coal, CO<sub>2</sub> emissions allowances, interest rate and inflation swaps, and forward foreign currency exchange contracts - are accounted for as derivatives in accordance with IFRS 9 and are recorded in the balance sheet at fair value (which is the difference between the price we have secured in the contract and the price we could achieve in the market at the balance sheet date). Changes in fair value are recognised in the hedge reserve (note 16) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the income statement where the hedge accounting requirements are not met. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges (or components of a wider strategy to fix target prices), regardless of whether or not the specific criteria for hedge accounting are met.

For financial reporting purposes, the Group has classified derivative financial instruments into three categories: commodity contracts, financial contracts and financing derivatives. Commodity contracts comprise forward contracts for the sale and purchase of physical commodities, such as power, coal, CO<sub>2</sub> emissions allowances and gas. Financial contracts include all financial derivatives used to secure the all-in cost of trading transactions (i.e. those that affect gross margin) such as financial coal, financial oil, inflation swaps and foreign currency exchange contracts. Financing derivatives include contracts utilised to manage the Group's debt position, such as cross-currency interest rate swaps. These financial instruments are carried in the balance sheet at fair value as follows:

|                          | As at 30 June             |                           | As at 31<br>December    |
|--------------------------|---------------------------|---------------------------|-------------------------|
|                          | 2019<br>(Unaudited)<br>£m | 2018<br>(Unaudited)<br>£m | 2018<br>(Audited)<br>£m |
| <b>Assets</b>            |                           |                           |                         |
| Commodity contracts      | 127.1                     | 100.5                     | 93.5                    |
| Financial contracts      | 428.8                     | 344.9                     | 389.2                   |
| Financing derivatives    | 41.7                      | -                         | 27.9                    |
| <b>Total assets</b>      | <b>597.6</b>              | <b>445.4</b>              | <b>510.6</b>            |
| <b>Liabilities</b>       |                           |                           |                         |
| Commodity contracts      | (87.9)                    | (138.3)                   | (105.7)                 |
| Financial contracts      | (44.3)                    | (100.2)                   | (45.7)                  |
| Financing derivatives    | (3.6)                     | -                         | -                       |
| <b>Total liabilities</b> | <b>(135.8)</b>            | <b>(238.5)</b>            | <b>(151.4)</b>          |

Net unrealised gains on the Group's derivative contract portfolio in the first six months of 2019 were £103.7 million (six months ended 30 June 2018: £44.6 million), with £1.6 million (2018: £24.4 million) recognised in the income statement, £40.6 million (2018: £1.0 million) in the cost of hedging reserve and £61.5 million (2018: £19.2 million) in the hedge reserve.

The change in fair value of our derivative portfolio in the period has been driven predominantly by changes in currency exchange rates and power prices. The Group has a large portfolio of forward currency purchase contracts, which fix the sterling cost of our future fuel purchases denominated in foreign currencies. Given the size of the portfolio, its fair value is highly sensitive to small changes in foreign currency exchange rates.

## Fair value measurement

### Commodity contracts:

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

### Financial contracts:

- **Forward foreign currency exchange contracts fair value** - The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value** - The fair value of other financial contracts is calculated by reference to forward market prices at the balance sheet date. As contracts are generally short-term, forward market price curves are available for the duration of the contracts.

### Financing derivatives:

- **Financing derivatives fair value** - The fair value of financing derivatives is calculated by reference to forward market prices at the balance sheet date.

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

The fair values of commodity contracts and financial contracts are largely determined by comparison of observable forward market prices with the contract price; therefore, these contracts are categorised at Level 2 of the fair value hierarchy under IFRS 13. The fair value of the inflation swaps comprises an RPI and CPI component. Whilst the RPI component is based on observable market rates, CPI is based on unobservable rates and therefore deemed to be level 3 in the fair value hierarchy. However, this component is not material to the overall valuation.

## 15. Other financial instruments

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

### Fair value

Cash and cash equivalents, short-term investments, trade and other receivables, and trade and other payables generally have short times to maturity. For this reason, their carrying values, on the historical cost basis, approximate to their fair value. The Group's borrowings relate principally to the publicly traded high-yield loan notes and amounts drawn down against term loans.

The financial liabilities have been measured at amortised cost. The terms of the instruments have been reviewed for the existence of embedded derivatives. The 2022 fixed rate loan notes and the 2025 USD loan notes both contain an early repayment option that meets the definition of an embedded derivative. However, in both cases, these have not been separated as they are deemed to be closely related to the host contract.

At 30 June 2019, the fair value of the loan notes was £17.5 million in excess of the carrying value of £746.1 million (based on quoted market prices).

## 16. Hedge reserve

Changes in the fair value of commodity contracts, financial contracts and financing derivatives, to the extent that they qualify as effective cash flow hedges under accounting rules, are recognised in the hedge reserve, a component of shareholders' equity. The cumulative gains and losses unwind and are released to the income statement to match the effect of the hedged cash flows.

The expected release profile of post-tax hedging gains/(losses) to the income statement is as follows:

|                       | As at 30 June 2019 (Unaudited) |                 |                 |             |
|-----------------------|--------------------------------|-----------------|-----------------|-------------|
|                       | Within<br>1 year<br>£m         | 1-2 years<br>£m | 2-5 years<br>£m | Total<br>£m |
| Commodity contracts   | 62.5                           | 3.0             | (0.1)           | 65.4        |
| Financial contracts   | 77.2                           | 68.9            | 45.5            | 191.6       |
| Financing derivatives | -                              | -               | 34.3            | 34.3        |
|                       | 139.7                          | 71.9            | 79.7            | 291.3       |

As at 30 June 2018 (Unaudited)

|                     | Within<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | Total<br>£m |
|---------------------|------------------------|-----------------|-----------------|-------------|
| Commodity contracts | (22.6)                 | 2.0             | 0.5             | (20.1)      |
| Financial contracts | 37.7                   | 61.0            | 51.2            | 149.9       |
|                     | 15.1                   | 63.0            | 51.7            | 129.8       |

As at 31 December 2018 (Audited)

|                       | Within<br>1 year<br>£m | 1-2 years<br>£m | 2-5 years<br>£m | Total<br>£m |
|-----------------------|------------------------|-----------------|-----------------|-------------|
| Commodity contracts   | 2.7                    | 3.6             | 0.5             | 6.8         |
| Financial contracts   | 67.0                   | 91.2            | 56.7            | 214.9       |
| Financing derivatives | -                      | -               | (21.8)          | (21.8)      |
|                       | 69.7                   | 94.8            | 35.4            | 199.9       |

## 17. Other reserves

|                                            | Capital<br>redemption<br>reserve<br>£m | Merger<br>reserve<br>£m | Translation<br>reserve<br>£m | Total<br>£m |
|--------------------------------------------|----------------------------------------|-------------------------|------------------------------|-------------|
| <b>At 1 January 2018</b>                   | 1.5                                    | 710.8                   | (6.8)                        | 705.5       |
| Other comprehensive income                 | -                                      | -                       | 7.2                          | 7.2         |
| Total comprehensive income for the year    | -                                      | -                       | 7.2                          | 7.2         |
| <b>31 December 2018</b>                    | 1.5                                    | 710.8                   | 0.4                          | 712.7       |
| <b>At 1 January 2018</b>                   | 1.5                                    | 710.8                   | (6.8)                        | 705.5       |
| Other comprehensive expense                | -                                      | -                       | (2.5)                        | (2.5)       |
| Total comprehensive income for the period  | -                                      | -                       | (2.5)                        | (2.5)       |
| <b>At 30 June 2018</b>                     | 1.5                                    | 710.8                   | (9.3)                        | 703.0       |
| <b>At 1 January 2019</b>                   | 1.5                                    | 710.8                   | 0.4                          | 712.7       |
| Other comprehensive expense                | -                                      | -                       | (0.7)                        | (0.7)       |
| Total comprehensive expense for the period | -                                      | -                       | (0.7)                        | (0.7)       |
| <b>At 30 June 2019</b>                     | 1.5                                    | 710.8                   | (0.3)                        | 712.0       |

## 18. Share buy-back programme

On 20 April 2018, the Group announced the commencement of a £50.0 million share buy-back programme. This programme concluded on 21 January 2019, having repurchased 13.8 million ordinary shares for total consideration of £50.4 million, including transaction costs.

These shares are held as a separate Treasury Share reserve awaiting reissue or cancellation and have no voting rights attached to them.

## 19. Contingencies

The following matters reflect potential future flows of cash, arising from existing events, that are dependent on a future event that is outside the control of the Group. The amount and timing of any payment is uncertain and cannot be measured reliably and as a result, no amounts in respect of these matters are provided for in the Group's financial statements.

### Capacity market suspension

On 15 November 2018 the General Court of the Court of Justice of the European Union found in favour of a claim against the European Commission, annulling the Commission's State aid approval of the UK Capacity Market scheme. This ruling imposed a standstill period on the Capacity Market, with payments under existing agreements suspended indefinitely until re-approval. Following this ruling, the Group ceased to accrue capacity market income in its Generation business.

The Department for Business, Energy, Innovation and Skills (BEIS) has indicated its intent, in a consultation document dated 19 December 2018, to work with the European Commission to achieve a reinstatement of the Capacity Market as soon as possible. On 21 February 2019 the European Commission opened an in-depth investigation to determine whether the UK Capacity Market scheme was in line with EU State aid rules. BEIS and the UK Government are supporting this appeal. BEIS has indicated that, upon reinstatement of the Capacity Market, it expects to make back payments to Generators, who have complied with their capacity agreements during the standstill period. As at the date of issuing the Condensed Consolidated Interim Financial Statements, the Group has complied fully with its obligations under its capacity agreements. However, while the European Commission's in-depth investigation is ongoing, reinstatement of Capacity Market payments remains conditional upon EU State aid re-approval and therefore is uncertain.

If the Capacity Market is reinstated and payments are backdated, the Group will receive £7 million in respect of payments due to the Generation business which would become payable in respect of the year ended 31 December 2018. A further amount of £34 million would be due in respect of the half year period from 1 January 2019 to 30 June 2019.

As disclosed in note 9, should 100% of the contracted Capacity Market payments in relation to the generating assets acquired from ScottishPower not be received in respect of the period 1 January to 30 September 2019, a risk sharing mechanism would result in further payments being made either to or from the Group in respect of the acquisition, up to a maximum value of £26 million.

### **Guarantees**

In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the Group's reimbursement obligations to a number of banks in respect of letters of credit issued to counterparties of the Group under the revolving credit facility. As at 30 June 2019 the Group's contingent liability in respect of such letters of credit amounted to £30.6 million (30 June 2018: £20.7 million).

Certain members of the Group also guarantee the Group's reimbursement obligations to a number of insurers in respect of surety bonds issued by such insurers to counterparties of the Group. As at 30 June 2019, the Group's contingent liability in respect of such surety bonds amounted to £68.3 million (30 June 2018: £57.5 million).

### **Drax 2019 Pension Scheme**

As part of the Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited) acquisition (see note 9), the terms of the sale and purchase agreement (SPA) specify that a number of employees with defined benefit pension rights transferred to the Group. The employees in question continue to participate in the Scottish Power Pension Scheme (SPPS) whilst the Group is in the process of setting up a new scheme for the members to transfer into (the Drax 2019 Scheme) and the format of the transfer is agreed.

The Group's balance sheet includes an estimate of the defined benefit surplus in respect of the Drax 2019 Scheme, based on a valuation performed by an independent qualified actuary, which assumes the transfer of members will take place in the form agreed in the SPA and the draft Trust Deed regarding the future operation of the new scheme.

At 30 June 2019 this value was £2.9 million.

At the date of signing this report, the form of the transfer had yet to be agreed with the Trustees of the SPPS. If the form or timing of the transfer ultimately differs from that set out in the SPA, this valuation could be subject to change.

## **20. Adoption of new accounting standards**

### **IFRS 16 Leases**

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an arrangement contains a lease, SIC 15 Operating leases and SIC 27 Evaluating the substance of transactions involving the legal form of a lease.

The Group has adopted IFRS 16 from 1 January 2019 using the modified retrospective method of adoption. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognised at the date of initial application. Consequently, comparative information in these Condensed Consolidated Interim Financial Statements for the year ended 31 December 2018 has not been restated.

The new requirements have impacted the Group's accounting for lease contracts. The Group's lease portfolio predominantly relates to properties and the hire of plant and equipment at operating sites. On transition to IFRS 16 on 1 January 2019, assets controlled under lease contracts were brought onto the balance sheet as right-of-use assets, and the Group has recognised a corresponding liability for the amounts payable under the lease contracts.

On transition, the Group elected to use the available practical expedient allowing the standard to only be applied to those contracts identified as leases under the previous standards. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to apply to those leases entered into or modified before 1

January 2019. However, the Group has applied the new definition of a lease to all contracts entered into or modified on or after 1 January 2019. This change did not have a significant impact on the assessment of contracts that are in scope of the definition of a lease.

The Group has also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and lease contracts for which the underlying asset is of low value (less than £3,500).

Under IFRS 16, right-of-use assets are tested for impairment. This has replaced the previous requirement to recognise a provision for onerous lease contracts.

#### a) Nature of the effect of adoption of IFRS 16

##### Leases previously classified as finance leases

The Group has not changed the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e. the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 were applied to these leases from 1 January 2019 and the related amounts on the balance sheet reclassified from property, plant and equipment to right-of-use assets and borrowings to lease liability.

##### Leases previously accounted for as operating leases

The Group has recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application. When calculating the remaining lease payments, termination options and extension options have been taken into account in determining the lease term where deemed to be reasonably probable. The right-of-use assets are recognised based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognised.

The Group also applied the following practical expedients as permitted by IFRS 16:

- Use of a single discount rate to a portfolio of leases with reasonably similar characteristics.
  - Relied on its assessment of whether leases are onerous immediately before the date of initial application.
  - Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application.
  - For leases of low value assets, the Group has elected to recognise a lease expense on a straight-line basis.
  - Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application.
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the above, as at 1 January 2019:

- Right-of-use assets of £27.0 million were recognised and presented separately in the balance sheet. This includes the lease assets recognised previously under finance leases of £0.6 million that were reclassified from property, plant and equipment.
  - Additional lease liabilities of £27.5 million were recognised separately on the balance sheet. This includes £0.5 million previously recognised as finance leases that were reclassified from borrowings.
- Prepayments of £0.1 million and trade and other payables of £0.7 million related to previous operating leases were derecognised.

The effect of adopting IFRS 16 as at 1 January 2019 (increase/(decrease)) is as follows:

|                               | Year ended 31<br>December 2018<br>As previously<br>reported | Transition<br>adjustments | Adjusted<br>balance sheet<br>at 1 January<br>2019 |
|-------------------------------|-------------------------------------------------------------|---------------------------|---------------------------------------------------|
|                               | £m                                                          | £m                        | £m                                                |
| <b>Assets</b>                 |                                                             |                           |                                                   |
| Right-of-use assets           | -                                                           | 27.0                      | 27.0                                              |
| Property, plant and equipment | 2,292.3                                                     | (0.6)                     | 2,291.7                                           |
| Trade and other receivables   | 468.8                                                       | (0.1)                     | 468.7                                             |
| <b>Liabilities</b>            |                                                             |                           |                                                   |
| Trade and other payables      | (938.5)                                                     | 0.7                       | (937.8)                                           |
| IFRS 16 lease liabilities     | -                                                           | (27.5)                    | (27.5)                                            |
| Borrowings                    | (608.1)                                                     | 0.5                       | (607.6)                                           |



**Total adjustment on equity:**

|                  |       |   |       |
|------------------|-------|---|-------|
| Retained profits | 442.7 | - | 442.7 |
|------------------|-------|---|-------|

The lease liabilities as at 1 January 2019 can be reconciled to the operating lease commitments as of 31 December 2018 as follows:

|                                                                  | £m          |
|------------------------------------------------------------------|-------------|
| <b>Operating lease commitments as at 31 December 2018</b>        | <b>30.8</b> |
| Effect of discounting                                            | (4.9)       |
| Less:                                                            |             |
| Commitments relating to short-term and low-value leases          | (0.8)       |
| Add:                                                             |             |
| Adjustments to lease payments not recognised at 31 December 2018 | 1.5         |
| Other adjustments                                                | 0.9         |
| <b>Lease liabilities as at 1 January 2019</b>                    | <b>27.5</b> |

**Amounts recognised in the balance sheet and income statement**

|                        | Right-of-use assets |                     |             | Lease liabilities |
|------------------------|---------------------|---------------------|-------------|-------------------|
|                        | Land and buildings  | Plant and machinery | Total       |                   |
|                        | £m                  | £m                  | £m          |                   |
| As at 1 January 2019   | 22.7                | 4.3                 | 27.0        | (27.5)            |
| Additions              | 0.8                 | 0.1                 | 0.9         | (0.8)             |
| Depreciation expense   | (1.9)               | (0.8)               | (2.7)       | -                 |
| Interest expense       | -                   | -                   | -           | (0.5)             |
| Payments               | -                   | -                   | -           | 2.3               |
| <b>At 30 June 2019</b> | <b>21.6</b>         | <b>3.6</b>          | <b>25.2</b> | <b>(26.5)</b>     |

The weighted-average discount rate applied to lease liabilities in the period ended 30 June 2019 was 4.1%.

The Group recognised rent expense from short-term and low value leases of £0.5 million for the six months ended 30 June 2019.

**21. Prior period restatements**

The Group made certain changes to the presentation of the income statement, statement of comprehensive income and statement of changes in equity during 2018, in anticipation of IFRIC guidance in relation to the treatment of gains and losses on derivative contracts for the delivery of non-financial items. These changes were reflected in the Group's 2018 Annual report and accounts, but not the Condensed Consolidated Interim Financial Statements for the period ended 30 June 2018. As a result, the comparatives for the period ended 30 June 2018 included in this document have been restated using the revised presentation.

The changes made are in line with the IFRIC agenda decision included in the IFRIC Update March 2019 and are described in further detail below.

**Change in presentation of income statement**

All gains and losses on derivative contracts that do not qualify for hedge accounting are included in revenue or cost of sales as and when they arise.

However, since the purpose of the derivative contracts concerned is to hedge certain risk exposures, principally commodity price and foreign currency risks, a columnar format was adopted for the income statement for the year ended 31 December 2018 in which Adjusted Results are presented, excluding certain gains and losses arising from remeasuring derivative contracts to fair value. The purpose of Adjusted Results is to reflect sales of electricity and purchases of fuel at the contracted price. This includes the effect of relevant financial derivatives (such as forward foreign currency contracts) used to secure the all-in sale or purchase price of the commodity concerned.

The Adjusted Results therefore in effect apply the accounting treatment that would have applied under IFRS 9 had the derivative contracts concerned qualified for hedge accounting. This is consistent with the practice followed by other major UK power generation companies. This change has been applied retrospectively for the comparative period 30 June 2018 but has not changed the results, only their presentation.

The impact on the previously reported amounts in the income statement and statement of comprehensive income, due to changes in accounting policies, are set out in the tables below.

Impact on the income statement (increase/(decrease)) for:

|                                           | Period ended<br>30 June 2018<br>As previously<br>reported<br>£m | Representation<br>of income<br>statement<br>£m | Period ended<br>30 June 2018<br>Restated<br>£m |
|-------------------------------------------|-----------------------------------------------------------------|------------------------------------------------|------------------------------------------------|
|                                           | total results                                                   | (b)                                            | total results                                  |
| Revenue                                   | 2,079.0                                                         | (10.5)                                         | 2,068.5                                        |
| Cost of sales                             | (1,801.0)                                                       | 34.9                                           | (1,766.1)                                      |
| Gross profit                              | 278.0                                                           | 24.4                                           | 302.4                                          |
| Operating and administrative expenses     | (158.3)                                                         | -                                              | (158.3)                                        |
| Impairment losses on trade receivables    | (18.1)                                                          | -                                              | (18.1)                                         |
| Depreciation                              | (60.7)                                                          | -                                              | (60.7)                                         |
| Amortisation                              | (21.9)                                                          | -                                              | (21.9)                                         |
| Loss on disposal                          | (1.2)                                                           | -                                              | (1.2)                                          |
| Asset obsolescence charge                 | (26.8)                                                          | -                                              | (26.8)                                         |
| Unrealised losses on derivative contracts | 24.4                                                            | (24.4)                                         | -                                              |
| Acquisition and restructuring costs       | (3.1)                                                           | -                                              | (3.1)                                          |
| Operating profit                          | 12.3                                                            | -                                              | 12.3                                           |
| Foreign exchange gains                    | 4.1                                                             | -                                              | 4.1                                            |
| Cost of debt restructuring                | (7.2)                                                           | 7.2                                            | -                                              |
| Interest payable and similar charges      | (20.9)                                                          | (7.2)                                          | (28.1)                                         |
| Interest receivable                       | 0.4                                                             | -                                              | 0.4                                            |
| Loss before tax                           | (11.3)                                                          | -                                              | (11.3)                                         |
| Total tax credit                          | 7.3                                                             | -                                              | 7.3                                            |
| Restated loss for the period              | (4.0)                                                           | -                                              | (4.0)                                          |
| Loss per share                            | Pence                                                           |                                                | Pence                                          |
| - Basic                                   | (1.0)                                                           |                                                | (1.0)                                          |
| - Diluted                                 | (1.0)                                                           |                                                | (1.0)                                          |

Impact on total comprehensive income (increase/(decrease)) for:

|                                                                                   | Period<br>ended<br>30 June<br>2018<br>£m |
|-----------------------------------------------------------------------------------|------------------------------------------|
|                                                                                   | Adjustments                              |
| <b>Total comprehensive income - as previously reported</b>                        | <b>13.4</b>                              |
| Net impact of cost of hedging released directly from reserves                     | (a) (7.0)                                |
| Fair value gains and losses on cash-flow hedges - released directly from reserves | (a) 52.3                                 |
| Deferred tax on above items                                                       | (c) (4.7)                                |
| <b>Total comprehensive expense - restated</b>                                     | <b>54.0</b>                              |

#### (a) Adoption of IFRIC guidance

Fair value gains and losses on cash flow hedges and cost of hedging of £45.3 million that relate to fuel purchases, which were recycled to inventory in the balance sheet, have been restated as though they were released directly from reserves and therefore are no longer recognised in other comprehensive income. The related deferred tax of £(4.7) million has also been reallocated.

#### b) Representation of the income statement

Unrealised gains and losses on derivative contracts have been included in the line item to which they relate.

#### (c) Tax charge

Upon adoption of the items above, deferred tax and income tax values were adjusted accordingly.

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

### IFRS 17 - insurance contracts

The Group does not issue insurance contracts and accordingly does not expect this standard to have any impact on the financial statements. Existing contracts are being reviewed to ensure they do not have characteristics of an insurance contract as defined by IFRS 17.

## 23. Reproduction of comparative financial information

### Income statement for year ended 31 December 2018

Historically the Group has presented the comparative results for the preceding full year on the face of the income statement in the Condensed Consolidated Interim Financial Statements. Following the adoption of a three-column format to the income statement in the 2018 Annual Report and Accounts, this practice has been discontinued to aid clarity of presentation of the primary statements.

For information, the full income statement for the year ended 31 December 2018 is reproduced below.

| Consolidated income statement                                      |       |                        |                                                          |                     |
|--------------------------------------------------------------------|-------|------------------------|----------------------------------------------------------|---------------------|
| Year ended 31 December                                             |       |                        |                                                          |                     |
| 2018 (Audited)                                                     |       |                        |                                                          |                     |
|                                                                    | Notes | Adjusted Results<br>£m | Exceptional items and<br>certain<br>remeasurements<br>£m | Total Results<br>£m |
| Revenue                                                            | 3     | 4,237.3                | (8.3)                                                    | 4,229.0             |
| Total cost of sales                                                |       | (3,636.3)              | 46.7                                                     | (3,589.6)           |
| <b>Gross profit</b>                                                |       | 601.0                  | 38.4                                                     | 639.4               |
| Operating and administrative expenses                              |       | (320.0)                | -                                                        | (320.0)             |
| Impairment losses on trade receivables                             |       | (31.4)                 | -                                                        | (31.4)              |
| <b>Adjusted EBITDA<sup>(2)</sup></b>                               |       | 249.6                  |                                                          |                     |
| Depreciation                                                       |       | (129.2)                | -                                                        | (129.2)             |
| Amortisation                                                       |       | (44.6)                 | -                                                        | (44.6)              |
| Asset obsolescence charge                                          |       | -                      | (26.8)                                                   | (26.8)              |
| Loss on disposal                                                   |       | (3.9)                  | -                                                        | (3.9)               |
| Other gains/(losses)                                               |       | 4.1                    | -                                                        | 4.1                 |
| Acquisition and restructuring costs <sup>(3)</sup>                 |       | -                      | (27.7)                                                   | (27.7)              |
| <b>Operating profit/(loss)</b>                                     |       | 76.0                   | (16.1)                                                   | 59.9                |
| Foreign exchange gains/(losses)                                    | 4     | 0.3                    | -                                                        | 0.3                 |
| Interest payable and similar charges <sup>(4)</sup>                | 4     | (40.4)                 | (7.2)                                                    | (47.6)              |
| Interest receivable                                                | 4     | 1.2                    | -                                                        | 1.2                 |
| <b>Profit/(loss) before tax</b>                                    |       | 37.1                   | (23.3)                                                   | 13.8                |
| Tax:                                                               |       |                        |                                                          |                     |
| Before effect of changes in rate of tax                            |       | 0.2                    | 1.6                                                      | 1.8                 |
| Prior year patent box credit                                       |       | 4.8                    | -                                                        | 4.8                 |
| Effect of changes in rate of tax                                   |       | (0.2)                  | -                                                        | (0.2)               |
| <b>Total tax credit</b>                                            | 5     | 4.8                    | 1.6                                                      | 6.4                 |
| <b>Profit/(loss) for the period attributable to equity holders</b> |       | 41.9                   | (21.7)                                                   | 20.2                |
| <b>Earnings/(loss) per share</b>                                   |       | Pence                  |                                                          | Pence               |
| <b>- Basic</b>                                                     | 8     | 10.4                   |                                                          | 5.0                 |
| <b>- Diluted</b>                                                   | 8     | 10.3                   |                                                          | 4.9                 |

**All results relate to continuing operations.**

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements.

(2) Adjusted EBITDA is defined as: Earnings before interest, tax, depreciation, amortisation excluding the impact of exceptional items and certain remeasurements.

(3) Acquisition and restructuring costs include costs associated with the acquisition and on-boarding of ScottishPower Generation Limited (2018) into the Group with costs associated with the restructuring of our Pellet Production and Customers businesses.

(4) Interest payable and other similar charges includes the cost of debt restructure which comprises one-off costs associated with the refinancing of the Group's debt.

**Consolidated statement of comprehensive income**

|                                                                                           | Year<br>ended<br>31<br>December<br>2018 |
|-------------------------------------------------------------------------------------------|-----------------------------------------|
|                                                                                           | (Audited)<br>£m                         |
| <b>Profit/(loss) for the period</b>                                                       | <b>20.2</b>                             |
| <b>Items that will not be reclassified subsequently to profit or loss:</b>                |                                         |
| Actuarial gains on defined benefit pension scheme                                         | 15.9                                    |
| Deferred tax on actuarial gains on defined benefit pension scheme                         | (3.0)                                   |
| Gain on equity investments                                                                | 0.2                                     |
| Net fair value gains on cost of hedging                                                   | 24.8                                    |
| Deferred tax on cost of hedging                                                           | (4.7)                                   |
| Net fair value gains on cash flow hedges                                                  | 164.3                                   |
| Deferred tax on cash flow hedges                                                          | (31.2)                                  |
| <b>Items that may be subsequently reclassified to profit or loss:</b>                     |                                         |
| Exchange differences on translation of foreign operations                                 | 7.2                                     |
| Fair value gains/(losses) on cash flow hedges                                             | 21.4                                    |
| Deferred tax on cash flow hedges                                                          | (4.2)                                   |
| <b>Other comprehensive income/(expense) for the period</b>                                | <b>190.7</b>                            |
| <b>Total comprehensive income/(expense) for the period attributable to equity holders</b> | <b>210.9</b>                            |

**Profit forecast**

In the Class 1 circular, published on 5 December 2018 in connection with the acquisition of a generation business from ScottishPower, we made a profit forecast in relation to the portfolio of assets acquired for the 12-month period ending 31 December 2019. Full details of the profit forecast (including the assumptions on which it was made and the sensitivity to the Capacity Market Payments due in 2019) are set out on pages 59 and 60 of the Class 1 circular.

The Class 1 circular can be accessed on the Group's website: [www.drax.com/circular2018](http://www.drax.com/circular2018).

**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 2019 which comprises the condensed consolidated income statement, 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 23. 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 Financial Reporting Council. 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 Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in the basis of preparation above, 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 Financial Reporting Council 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 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 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

### **Deloitte LLP**

Statutory Auditor  
London, United Kingdom  
23 July 2019

## **Glossary**

### **Adjusted EBITDA**

Earnings before interest, tax, depreciation, amortisation excluding the impact of exceptional items and certain remeasurements.

### **Adjusted Results**

Business performance after adjusting for material, one-off exceptional items, certain remeasurements, acquisition and restructuring costs, and debt restructuring costs.

### **APM**

Alternative Performance Measure.

### **Ancillary services**

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

**Availability**

Average percentage of time the units were available for generation.

**Bark spread**

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

**Black start**

The process of restoring an electric power station or a part of an electric grid to operation without relying on the external electric power transmission network to recover from a total or partial shutdown.

**Biomass**

Organic material of non-fossil origin, including organic waste, that can be converted into bioenergy through combustion. Drax uses woody biomass from low grade wood, sawmill residues and forest residues, in the form of compressed wood pellets, to generate electricity at Drax Power.

**Capacity market**

Part of the Government's Electricity Market Reform, the Capacity Market is intended to ensure security of electricity supply by providing a payment for reliable sources of capacity.

**Carbon price support mechanism (or carbon price floor or carbon tax)**

A tax upon fossil fuel (including coal) used to generate electricity. It is charged as a levy on coal delivered to the power station.

**Contracts for difference (CfD)**

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

**Dark green spread**

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

**Department for Business, Energy and Industrial Strategy (BEIS)**

The Government department bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change (formerly DECC).

**EU ETS**

EU Emissions Trading System.

**Feed-in Tariff**

A long-term contract set at a fixed level where variable payments are made to ensure the generator receives an agreed tariff. The feed-in tariff payment would be made in addition to the generator's revenues from selling in the market.

**Forced outage**

Any reduction in plant availability, excluding planned outages.

**Forced outage rate**

The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

**Frequency response**

The capacity which is not available due to forced outages or restrictions expressed as a percentage of the maximum theoretical capacity, less planned outage capacity.

**Grid charges**

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

**Headroom and footroom**

Positive 'reserve' (see below) may be termed headroom and negative reserve as footroom.

**IFRS**

International Financial Reporting Standards.

**Inertia**

The energy stored in the rotating generators which resists variations in system frequency resulting from changes in the supply/demand balance. A level of inertia is vital to slow down the rate of change of frequency and thereby maintain a stable, reliable supply particularly at times of system faults.

**Levy control framework**

A control framework for BEIS levy-funded spending intended to make sure that BEIS achieves its fuel poverty, energy and climate change goals in a way that is consistent with economic recovery and minimising the impact on consumer bills.

**Load factor**

Net sent out generation as a percentage of maximum sales.

**Lost time injuries**

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

**Net debt**

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

**OCGT**

Open Cycle Gas Turbine.

**Patent box regime**

The Patent Box enables companies to apply a lower rate of Corporation Tax of 10% to profits earned from patented inventions.

**Planned outage**

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

**Power**

The provision of electricity and/or gas.

**Prosumer**

An individual, business or institution that consumes and produces a product, such as electricity.

**Renewable support**

Term used to refer to any financial incentive in respect of renewable energy generation. At present this predominantly reflects the value ascribed to ROCs and CfD.

**REGO**

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

**Reserve**

Generation or demand available to be dispatched by the System Operator to correct a generation/demand imbalance, normally at two or more minutes' notice.

**RIDDOR**

Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

**ROCs**

A Renewable Obligation Certificate (ROC) is a certificate issued to an accredited generator for electricity generated from eligible renewable sources.

**Summer**

The calendar months April to September.

**System operator**

National Grid Electricity Transmission. Responsible for the coordination of electricity flows onto and over the transmission system, balancing generation supply and user demand.

**Total recordable injury rate (TRIR)**

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

**Value from Flexibility**

A measure of the value from flexible power generation, support services provided to the power network and attractively priced coal fuels.

**Voltage control**

Maintenance of voltage within specified limits in order to 'push' power around the system to maintain safety and stability.

**Winter**

The calendar months October to March.

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

This information is provided by RNS, the news service of the London Stock Exchange. RNS is approved by the Financial Conduct Authority to act as a Primary Information Provider in the United Kingdom. Terms and conditions relating to the use and distribution of this information may apply. For further information, please contact [rns@lse.com](mailto:rns@lse.com) or visit [www.rns.com](http://www.rns.com).

END

IR RJMLTMBATBJL

CLOSE

---

**London Stock Exchange plc is not responsible for and does not check content on this Website. Website users are responsible for checking content. Any news item (including any prospectus) which is addressed solely to the persons and countries specified therein should not be relied upon other than by such persons and/or outside the specified countries. [Terms and conditions](#), including restrictions on use and distribution apply.**

---

©2014 London Stock Exchange plc. All rights reserved

Half-year Report - RNS