29 July 2014

DRAX GROUP PLC (Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2014

Now providing cost-effective renewable power to the equivalent of 2 million homes

Six months ended 30 June	**2014**	**2013**
Key financial performance measures		
EBITDA (£ million)(1)	102	120
Underlying earnings (£ million)(2)	38	70
Underlying earnings per share (pence)(2)	9.4	17.3
Total dividends (pence per share)(3)	4.7	8.7
Statutory accounting measures		
(Loss) / profit before tax (£ million)	(11)	206
Reported basic (losses) / earnings per share (pence)	(2)	41

Financial and Operational Highlights

- H1 2014 underlying profits reflect good operational performance
- Year on year reduction in EBITDA driven by increasing cost of UK carbon tax
- Outlook for the full year remains unchanged

Biomass Transformation Highlights

- Biomass now more than 20% of Drax output
  - First converted unit performing very well
  - Enhanced co-firing (ECF) unit operating from May burning at least 85% biomass - performing well and in line with plan
- Good progress with unit optimisation - secures unit flexibility and improved capacity / efficiency
- UK and US construction projects on schedule and to budget
  - Drax site biomass storage and delivery systems fully operational for first two units
- Regulation remains uncertain, but more clarity expected
  - Early CfD awards still subject to EU State aid clearance. Second unit also dependent on final conclusion of the legal challenge
  - CfD contracts underpin the investment required to secure timely delivery of the sustainable biomass supply chain for future unit conversions

Dorothy Thompson, Chief Executive of Drax, said:

“We are pleased to have delivered another good operating performance across our biomass and coal generation business. However, as expected, in the short term the increasing cost of the UK carbon tax drove EBITDA down year on year. We have been investing significant capital to transform Drax into one of Europe’s largest renewable power generators, burning sustainable biomass, thereby improving the long term value proposition for the Group.

“The regulatory landscape still presents uncertainties, but positive progress is being made and we hope that most of the key issues will be clarified in the coming months.

“Our underlying business case remains strong. In 2016, half of Drax Power Station will be fuelled by sustainable biomass, delivering 4% of the UK’s electricity. Through this transformation we will provide cost-effective, low carbon and reliable renewable power to the UK consumer.

“At the core of the Group is a very high quality power station, hugely important to the security of electricity supply in the UK. We will remain critical to UK infrastructure for a very long time to come.”

H1 2014 Review

Financial

- EBITDA for H1 2014 down 15% at £102 million
  - Year on year reduction reflects increasing cost of UK carbon tax
- Underlying earnings per share decreased 46% to 9.4 pence
  - Higher depreciation and finance costs, reflecting biomass investment and associated financing
  - Reported basic loss per share of 2 pence includes unrealised losses on derivative contracts of £56 million (and the associated tax), principally related to foreign currency hedging programme
- H1 2014 effective tax rate on underlying profits of 16%
  - Expect full year tax rate on underlying profits to be close to or just below standard corporate rate
- Capital investment on track
  - H1 2014 capital investment of £123 million
  - Full year capital investment guidance unchanged at c.£200 million
- Evaluating options for further value enhancing, biomass related capital investment
  - Supply chain - potential 3rd US Gulf pellet plant and US East coast pellet operations
  - Fourth unit conversion - dependent on regulatory support
- Interim dividend of 4.7 pence per share, or £19 million (H1 2013: 8.7 pence per share, or £35 million), in line with policy to distribute 50% of underlying earnings
- Strong balance sheet
  - Net debt of £38 million includes additional £100 million M&G loan facility concluded in May 2014

Operational

Six months ended 30 June	**2014**		**2013**	
Key operational performance measures	**Biomass(4)**	**Coal**	**Biomass(4)**	**Coal**
Forced outage rate (%)	7.5	7.3	13.1	7.6
Planned outage rate (%)	17.4	8.3	12.9	11.1
Availability (%)	76	85	76	82
Electrical output (net sales) (TWh)	3.0	9.9	0.7	11.9

- Maintaining good safety performance
- Increased balancing activity for coal and biomass units

Coal Operations

- Load factor 82% - continued high output due to good availability

Biomass Operations

- Technical performance in line with expectations
  - Expect availability in line with coal from 2016
- Load factor 71%
- Drax site construction to complete in Q3 2014

Notes:

(1) EBITDA is profit before interest, tax, depreciation, amortisation and unrealised gains / losses on derivative contracts.

(2) H1 2014 underlying earnings exclude unrealised losses on derivative contracts of £56 million (H1 2013: unrealised gain of £122 million) and the associated tax.

(3) Based on 50% of underlying earnings.

(4) H1 2014: one converted unit for 6 months and one ECF unit for 2 months (H1 2013: one converted unit for 2 months).

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.

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Results presentation meeting and call-in arrangements

Management will host a presentation for analysts and investors at 9:00am (UK Time) today at **The Lincoln Centre, 18 Lincoln's Inn Fields, London, WC2A 3ED.**

Would anyone wishing to attend please confirm by either e-mailing habdee@brunswickgroup.com or calling Holly Abd'ee at Brunswick Group on +44 (0) 20 7404 5959.

The meeting can also be accessed remotely via a conference call or alternatively via a live webcast, as detailed below. After the meeting, a video webcast and recordings of the call will be made available and access details for these recordings are also set out below.

A copy of the presentation will be made available from 7am (UK time) today for download at: www.drax.com>>investors>>results_and_reports>>IR presentations>>2014 or use the link http://www.drax.com/investors/results-and-reports/ir-presentations/

Event Title:	Drax Group plc: Half Year Results
Event Date:	Tuesday 29 July 2014
Event Time	9:00am (UK time)
UK Call-In Number	0808 237 0033
International Call-In Number	+44 (0) 203 427 0662
US Call-In Number:	+1 877 841 4558
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16531/37466/Lobby/default.htm
Instant Replay	
UK Call-In Number	0808 237 0026
International Call-In Number	+44 (0) 203 426 2807
US Call-In Number:	+1 866 535 8030
Passcode:	649367#
Start Date:	Tuesday 29 July 2014
Delete Date:	Thursday 28 August 2014
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Video Webcast	
Start Date:	Tuesday 29 July 2014
Delete Date:	Tuesday 28 July 2015
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16531/37466/Lobby/default.htm

For further information please contact Holly Abd'ee at Brunswick Group on +44 (0) 20 7404 5959.

Website:	www.drax.com

Chairman's introduction

During the first half of 2014 we have built on our achievements of last year and remain well placed to deliver an attractive future for our business and our shareholders. We are committed to our biomass strategy which will see Drax transformed into a predominantly biomass-fuelled power provider. Importantly, we are on track to successfully deliver, albeit in the context of some significant regulatory uncertainties. There are a number of areas where we need to work further with the UK government and other stakeholders to secure better regulatory clarity for our business. This will be an area of focus in the coming months.

The Group performed well in the first half of this year although, as expected, EBITDA was lower than for the same period last year reflecting the increasing cost of the UK carbon tax. In accordance with our dividend policy, shareholders will receive an interim ordinary dividend of 4.7 pence per share in October, equivalent to approximately £19 million.

Good progress has been made in all three of our business activities – upstream development of wood pellet supply chain assets, power generation, and downstream supply of power to business customers. Our three projects in the US Gulf are on schedule and to budget. Sustainable biomass now fuels more than one-fifth of our electricity generation output. Finally, our retail arm continues to provide value to the Group, as it delivers sales growth and offers a credit-efficient route to market.

We remain convinced of the important role that sustainable biomass has to play in the UK energy mix. We only buy biomass that complies with our industry-leading sustainability policy. This ensures that we deliver a cost effective, low carbon and reliable source of renewable power which is good for the consumer, good for the environment and good for security of supply.

My thanks go to all Group staff for their contribution to what has been a successful first half of the year.

Chief Executive’s statement

Introduction
We delivered strong operations across the Group’s businesses in the first half of the year. Nevertheless, as expected, profits are down compared to the same period last year due to the increasing expense of the UK government’s carbon tax.

We remain on track with our strategy to transform the business into a predominantly biomass-fuelled electricity generator and supplier. However, the regulatory landscape presents some uncertainties. We expect most of these to be clarified during the remainder of the year. In the meantime, we are working with the UK government and other stakeholders as appropriate.

Commodity market conditions for coal and renewable generators have weakened since the start of the year. This was primarily caused by a warm and windy winter. The UK has had good supplies of gas which, given lower than normal demand, has resulted in high gas storage which in turn has had a dampening effect on the gas and power markets. In addition, high wind generation has resulted in higher than forecast supplies of renewable power.

Business review

Safety and sustainability
Safety and sustainability are the foundations of our operating philosophy, underpinning all that we do. On safety we have again delivered better than first quartile performance during the first half of the year. Our safety performance should be considered against the backdrop of the considerable construction activity we are currently undertaking in both the UK and the US. We have delivered excellent safety performance at the Drax Power Station site across construction and business as usual operations. In the US, safety performance at our construction sites has seen some improvement, but does not yet meet the standard of our UK operations.

We remain committed to our industry leading sustainability policy for biomass procurement. All the biomass we source complies with our policy, which includes only buying biomass that delivers major carbon savings determined by a full life cycle (or carbon footprint) analysis. A programme of independent audits verifies compliance with our policy and, further, that our fibre sourcing strategy will meet the UK mandatory standards when they come into force in 2015.

We continue to advocate the need for harmonised, mandatory sustainability criteria for solid biomass used in electricity production across Europe. To that end, together with other large European biomass generators, we are working with the Sustainable Biomass Partnership to establish common, robust sustainability standards and certification processes.

Generation performance
We have delivered good operating performance from our coal units, with availability and load factors slightly ahead of that reported for the same period last year. The biomass units overall are also delivering good availability and load factors.

Sustainable biomass now represents more than 20% of our fuel mix. The unit which was fully converted to burn biomass in April 2013 continues to perform very well. In May of this year, as planned, a second unit began operating as an enhanced co-firing unit, which means it burns at least 85% sustainable biomass with the remainder coal. This unit is performing well as it goes through commissioning procedures in its early period of operation.

We entered the second half of the year with forward sales approximately equal to 95% of our anticipated generation output. As we approach delivery we expect to buy back power for some of these sales as we make use of the flexibility of our generation facilities to respond to changes in electricity demand.

Retail performance
Our retail business, Haven Power Limited (“Haven Power”), continues to provide a credit-efficient route to market and growth in sales. Sales volumes are up on the same period last year, with good credit quality and low bad debt experience.

Regulatory Update

The regulatory landscape is a key external influence for our biomass and coal business.

In terms of biomass, our first unit conversion to full biomass and our enhanced co-firing unit are supported under the Renewables Obligation ("RO"). The next step in our plan to transform Drax into a predominantly biomass-fuelled power provider is to complete our second unit conversion by fully converting the enhanced co-firing unit to burn 100% biomass, either later this year or early next year.

At the start of the year we had expected to be awarded an early contract for difference (Investment Contract) under the forthcoming contracts for difference ("CfD") regime to support our second unit conversion. The unit was assessed as eligible to receive an Investment Contract through the first two stages of the award allocation process. However, in April during the final stage of the process the government concluded that this second unit conversion was no longer eligible. As there had been no changes to our plans for this unit, we elected to challenge government's decision through the High Court. The hearing was held in July and concluded with a judgment in our favour which quashed the decision, ordered that the unit conversion be deemed eligible and remitted the matter back to government for reconsideration. Government has since awarded an Investment Contract for our second unit conversion. However, it has also appealed the High Court judgment. The Investment Contract is thus subject to the outcome of the appeal, and if the final conclusion of the legal challenge upholds the High Court judgment the Investment Contract will be subject to EU State aid clearance.

Our third unit conversion was awarded an Investment Contract in April. This has now been executed, but is subject to EU State aid clearance. Clearance is required both for the enduring CfD scheme and individual projects (with a capacity of more than 250MW) which have been awarded Investment Contracts. Encouragingly, in July the European Commission approved the enduring CfD scheme, as a whole, for State aid, and also cleared the five off-shore wind projects that had been awarded Investment Contracts. However, the Commission has yet to consider whether any of the biomass generation projects awarded Investment Contracts, which includes our third unit conversion and potentially our second, comply with EU State aid rules. We now expect these projects to be assessed after the summer.

We have also continued to develop plans to convert a fourth unit. That unit could be supported under the enduring CfD regime, or depending on the timing, possibly under the RO. The government has announced the provisional budgets for the first allocation round of CfD awards (the enduring CfDs). No budget was made available for biomass conversions as the government elected to use the limited budget it made available for this round to support established and less-established technologies, such as on-shore and off-shore wind. No guidance has been given on the biomass conversion budget for the second round which we expect will be launched in 2015. However, the UK government has secured EU State aid clearance to support biomass conversions through dedicated tenders (that is, technology specific) up to 2017 as opposed to competitive tenders with other renewable technologies.

In June, government published its final electricity market reform policy decisions, which included guidelines for the first capacity auction in December 2014 for delivery in 2018. We consider that the capacity market, as now designed, is a viable option for Drax's coal units. In July, the government also secured EU State aid clearance for its capacity market proposals.

Biomass supply chain

We continue to make good progress with our biomass sourcing for near-term volumes. Some short term reductions in demand for biomass in mainland Europe and the UK has assisted with sourcing these volumes. Negotiations are progressing for the second and third unit conversions. Contracts for these long-term volumes were to be underpinned by Investment Contracts and inevitably government's April decision and our legal challenge that followed have caused some delays.

Our biomass supply chain projects in the southern US states of Louisiana and Mississippi are proceeding well. We are constructing two pellet plants, with a combined capacity of 900 thousand tonnes a year, and a port facility, of 3 million tonnes a year export capacity. All three projects are proceeding to schedule and are within budget. Commercial operations for the first pellet plant and the port facility are scheduled for the first quarter of 2015 and for the second pellet plant in the second quarter of 2015. Full capacity will be reached six months later.

We are also evaluating options to build more pellet plants and port facilities with the aim of securing attractive returns and greater control of sustainable supply chains that we can leverage to our commercial advantage. We have identified the potential to accelerate investment in a third pellet plant in the US Gulf region and we are evaluating the possibility of a US East coast pellet operation.

Completing the biomass supply chain we expect to have UK port and rail capacity of 6 million tonnes fully operational by the end of the year. Finally, all construction activity on the Drax Power Station site is scheduled for completion in the third quarter of this year.

Industrial Emissions Directive
In preparation for compliance with the Industrial Emissions Directive, which comes into force in 2016, we conducted trials during the first half of year on our lead technical solution which includes low nitrogen oxides ("NOX") burners and selective non-catalytic reduction ("SNCR") technology. The trials have been successful and we are now moving forward with an investment plan to equip all six of the units at the power station with low NOX burners and SNCR capability.

Carbon Capture and Storage
Together, Alstom UK Limited, Drax and BOC (a member of The Linde Group) have formed a consortium, Capture Power Limited, in support of the White Rose Carbon Capture and Storage ("CCS") Project, a proposed 426MW oxy-combustion CCS demonstration project located at the Drax Power Station site, with the transport and storage elements of the project provided by National Grid.

Following the award of grant funding for a Front End Engineering and Design ("FEED") study under the government's CCS Commercialisation Programme, the government submitted a funding application to the European Commission for the project under the second call of the European NER 300 programme. In July, the Commission announced a funding award decision of up to €300 million in favour of the project.

Outlook

The business is on track to complete our transformation into a predominantly biomass-fuelled power provider by having three operational converted biomass units in 2016 and three units fuelled by coal. At a minimum we would expect two of the converted biomass units to be supported through the Renewables Obligation and the third with an Investment Contract, whilst our coal units would continue to earn revenue through the wholesale power market and our retail business, Haven Power.

We will continue to work to provide upside to this core investment. Should we be successful in our legal challenge post appeal, the business would benefit from two of the converted units being supported by Investment Contracts, with the associated protection of private law contracts and income stability.

We continue to progress options for converting a fourth unit to biomass, which could be under the Renewables Obligation or, if budget is made available in the 2015 CfD allocation, potentially supported by an enduring CfD.

The government's final design proposals for the capacity market now represent an attractive opportunity for reliable generators to support electricity security. We expect to bid our coal units into the first auction this winter for delivery of reliable capacity in 2018.

Finally, at the end of 2015 having completed the FEED study, we expect to take a final investment decision on the White Rose CCS Project. This will be dependent on successful outcomes of the study, funding arrangements and the terms of the proposed CfD contract for the project. Whilst clearly an interesting and important project, we will only progress this investment if it delivers an appropriate return on capital, commensurate with the technical and commercial risks.

In summary, it is a complex picture for our stakeholders to evaluate. However, the issues in our direct control have gone very well, and in areas where we have less control, in particular the regulatory landscape, positive progress is being made.

At the core of the Group is a very high quality power station, hugely important to the security of supply in the UK. We will remain critical to UK electricity infrastructure for a very long time to come.

Operational and financial performance

Introduction

EBITDA for the six months ended 30 June 2014 was £102 million, compared to £120 million for the six months ended 30 June 2013.

Our results for the first half of 2014 were supported by good operational performance. The first converted biomass unit continues to perform very well, and our enhanced co-firing unit, which came on line in May of this year, is operating to plan during its commissioning period.

The Generation business remains predominantly coal-fired and is subject to increases in the cost of carbon incurred through the ending of free carbon dioxide ("CO_2") emissions allowances at the end of 2012 and the introduction of carbon tax from the UK carbon price support ("CPS") mechanism in April 2013. As such, we have experienced an expected reduction in profitability compared to the first six months of 2013.

Looking forward, earnings will continue to be impacted by the increasing carbon costs until our biomass generation becomes more substantial.

Our retail business, Haven Power Limited ("Haven Power"), provides the Group with a credit-efficient route to market for power, ROCs and LECs, and continues to deliver good volume growth with sales of 5.6TWh in the six months to 30 June 2014 compared to 3.6TWh during the same period in 2013.

The £18 million reduction in EBITDA, coupled with significant increases in ROC assets arising from increased biomass generation, has driven a reduction in cash generated from operations to £64 million for the first half of 2014 compared to £129 million in 2013. The majority of ROCs generated in 2014 will be sold in 2015, at which point the cash will be realised.

In support of our biomass transformation, continued investment at Drax Power Station combined with the development of pellet plant and port facilities in the US are reflected in capital expenditure of £123 million in the first half of 2014 (2013: £138 million).

Our balance sheet remains strong. In May this year we agreed a new £100 million private placement with M&G Investments, which complements our existing financing structure secured in previous years and provides additional liquidity to the Group. This results in total loans outstanding of £325 million and net debt at 30 June 2014 of £38 million.

The Board has resolved to pay an interim dividend for 2014 of 4.7 pence per share (£19 million) for the six months ended 30 June 2014, compared to 8.7 pence per share (£35 million) for the six months ended 30 June 2013.

This review provides further explanation and commentary on the results for the first half.

Generation

Generation gross profit	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Revenue			
Power sales	**1,002.6**	769.7	1,668.9
ROC and LEC sales	**38.0**	1.6	62.8
Ancillary services income	**5.9**	6.0	12.1
Other income	**13.3**	7.6	36.1
	1,059.7	784.9	1,779.9
Cost of sales			
Fuel costs in respect of generation	**(481.8)**	(409.0)	(945.8)
Cost of power purchases	**(344.3)**	(138.8)	(334.1)
Grid charges	**(35.9)**	(30.6)	(70.4)
	(862.0)	(578.4)	(1,350.3)
Gross profit	**197.8**	206.5	429.6

Generation gross profit

The generation gross profit for the six months ended 30 June 2014 was £198 million, down 4% compared to £207 million in 2013. The expected impact of the UK carbon tax, although mitigated somewhat by the increase of biomass in our fuel mix, meant that profits for the first six months of 2014 were lower than the same period last year.

The cost of the UK carbon tax will continue to erode the profit margins of coal generating plant. This supports the economic case for the strategy we have developed to become a predominantly biomass-fuelled power generator.

Revenue

Total generation revenue for the six months ending 30 June 2014 was £1,060 million compared to £785 million in 2013.

Our generation business recognises revenue when it sells power into the wholesale market, or to Haven Power. We can meet our power delivery obligations either by generating the power ourselves or, when it is more economical to do so, by buying power from the market.

Power purchases of £344 million (2013: £139 million) are included within cost of sales and the associated revenue within power sales. Falling market power prices during the first half of 2014 have resulted in an increase in market purchases as the overnight power price more frequently fell below our marginal cost of production at the point of delivery. The growing level of intermittent generation on the electricity system in the UK, which contributes to falling power prices, is also providing opportunities to capitalise on the flexibility of the Drax plant through balancing and system support activities.

Excluding the cost of power purchased in the market, our power sales revenue of £658 million was higher than for the first six months of 2013 (£631 million). This reflects a 2% increase in our generation to 12.9TWh in the first six months of 2014 from 12.6TWh in 2013, due to improved availability of our plant, and also an increase in the average selling price which we achieved for our power from £50.1 per MWh for the first six months of 2013 to £51.3 per MWh in 2014. The timing of our hedges has provided protection from recent power market weakness.

Generation revenue also includes sales of ROCs and LECs, totalling £38 million for the six months ended 30 June 2014 compared to £2 million in 2013. Biomass now represents 23% of our fuel mix (2013: 7%) resulting in entitlement to considerably more ROCs and LECs. ROC support is recognised in the income statement as a deduction from cost of sales in the month in which it is earned from burning the biomass. The related asset is capitalised on our balance sheet until transfer of the title and a sale occurs. The balance sheet position is shown below:

ROC and LEC assets on the balance sheet	Six months ended 30 June 2014 £m	Year ended 31 December 2013 £m
ROCs/LECs at start of period	**139.5**	18.7
ROCs/LECs generated	**132.4**	143.9
ROCs/LECs purchased	**3.5**	37.6
ROCs/LECs sold/utilised	**(38.4)**	(60.7)
ROCs/LECs at end of period	**237.0**	139.5

The timing of ROC sales is largely driven by a combination of Renewables Obligation deadlines and commercial considerations. Consequently, the majority of the ROCs generated in 2014 will be sold in 2015. The resulting impact upon cash flow is explained further in the liquidity and capital resources section.

Cost of sales

Our fuel costs are driven by a combination of market prices at the time of securing the fuel and the mix of different fuels burnt during the period.

UK and EU legislation (the UK carbon tax mechanism introduced in April 2013 and Phase III of the EU Emissions Trading Scheme, which removed free carbon allowances at the end of 2012), have increased the cost of burning coal and supports our transformation strategy, which sees biomass as an increasing proportion of our fuel mix.

Fuel costs in respect of generation	Six months ended 30 June 2014 £m	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Gross fuel costs (coal, biomass, oil and petcoke)	**483.2**	364.5	842.0
Carbon price support (CPS)	**48.6**	13.7	61.8
Carbon emissions allowances	**44.4**	70.2	123.5
Cost of ROCs/LECs sold	**38.0**	0.6	62.3
ROC/LEC support	**(132.4)**	(40.0)	(143.8)
Total fuel costs in respect of generation	**481.8**	**409.0**	**945.8**

As can be seen in the table above, fuel costs in respect of generation were £482 million during the six months ended 30 June 2014 (2013: £409 million). The average cost of fuel, before the impact of carbon and ROC support, was £37.5 per MWh for the first six months of 2014, compared to £28.9 per MWh for the same period last year, reflecting the increase of biomass in our fuel mix.

Biomass accounted for 23% of our total fuel burnt (by energy content) in the six months ended 30 June 2014 compared to 7% in the corresponding period of 2013. This increase reflects the first converted unit being operational for the whole period in 2014, but only part of the period in 2013, and the enhanced co-firing unit coming on line in May 2014. As we progress our transformation through to three converted units, biomass will continue to account for a greater proportion of total fuel costs.

Within total fuel costs in respect of generation, net biomass costs are made up of the cost of the fuel burnt less the value of renewable support received. The cost of the fuel includes raw material and delivery costs. The renewable support reflects the value assigned to ROCs and LECs earned through generating electricity from burning biomass. The value of the renewable support therefore reduces the overall net cost of biomass.

When renewable support is taken in to account, the average cost of fuel for the period is £27.2 per MWh (2013: £25.8 per MWh).

Coal remains the largest component of our fuel mix, representing 77% of fuel burnt (by energy content) for the first half of 2014 (2013: 88%). As a result, the cost of the UK carbon tax introduced in April 2013 has led to a decrease in our achieved gross margin compared to the same period in 2013. The carbon tax charged to the income statement for the 6 months ended 30 June 2014 was £49 million compared to £14 million in 2013.

In addition to the UK carbon tax, under Phase III of the EU ETS (2013-2020) we are also required to meet the full cost of CO_2 emitted from generation through purchases of CO_2 emissions allowances in the market from the beginning of 2013.

The increase in the amount of biomass burnt in the six months ended 30 June 2014 has resulted in our CO_2 emissions reducing from approximately 10.2 million tonnes (with allowances purchased at an average price of £6.9 per tonne) in 2013 to approximately 8.6 million tonnes (with allowances purchased at an average price of £5.2 per tonne) in 2014. The reduction in average price paid reflects our contracted position in the market at the point of purchase.

The net impact of carbon on cost of sales is therefore an increase of £9 million when comparing the first six months of 2014 to the same period in 2013.

As noted above, when it is more economical to do so, we can meet our power delivery obligations by buying power from the market. In the six months ended 30 June 2014, power purchases totalled £344 million compared to £139 million in the same period in 2013. The increase is primarily a function of the growing level of intermittent generation in the UK, which is providing valuable opportunities to capitalise on the flexibility of the Drax plant.

Upon the sale of ROCs and LECs the associated income is recognised as revenue and the value of the ROC or LEC (previously held in the balance sheet) is recorded separately in cost of sales. The cost of ROCs and LECs sold in the first half of 2014 was £38 million (2013: £1 million).

Generation cost of sales also includes grid charges of £36 million (2013: £31 million) which continue to increase, also driven by the impact of more intermittent generation on system balancing costs.

Generation operating performance

Health and safety

Against a backdrop of significant construction activity, we have continued to deliver good safety statistics for the Group, with a lost time injury rate and total recordable injury rate of 0.05 and 0.33 respectively for the six months ended 30 June 2014, compared to 0.09 and 0.23 in 2013.

In the UK, where our safety performance is industry-leading, we have continued to undertake a significant amount of project work, including a single major unit outage and the modification of one of our units to run as an enhanced co-firing unit.

In the US, the construction of two pellet plants and a port facility is on-going. Safety performance at our US construction sites has seen some improvement, but does not yet meet the standard of our UK operations. We are working hard to drive improvements in this area.

Outage and plant utilisation levels		**Six months ended 30 June 2014**		Six months ended 30 June 2013		Year ended 31 December 2013
	Biomass	**Coal**	Biomass	Coal	Biomass	Coal
Forced outage rate (%)	7.5	7.3	13.1	7.6	6.8	6.8
Planned outage rate (%)	17.4	8.3	12.9	11.1	5.4	10.0
Availability (%)	76	85	76	82	88	84
Electrical output (net sales - TWh)	3.0	9.9	0.7	11.9	2.9	23.3

Biomass

The first converted unit began to operate in May 2013, using our existing biomass co-firing materials receipt, storage and handling infrastructure on a temporary basis, until the new on-site systems were available later in the fourth quarter. As described above, a second unit was modified to operate as an enhanced co-firing unit from May 2014. Both units have operated fully on the new bespoke systems this year.

The first converted unit is performing very well, delivering output of 630MW on a consistent basis. The enhanced co-firing unit is currently going through a commissioning period and is operating in line with plan.

The biomass forced outage rate for the period of 7.5% represents a good improvement on the comparative period (13.1%), reflecting our improved knowledge and understanding, with now over twelve months operating experience with the first converted unit. The planned outage rate for the first half of 17.4% (2013: 12.9%) includes a one month outage to modify the second unit for high biomass burn.

Biomass unit availability for the six months ended 30 June 2014 was therefore 76%, similar to last year.

The biomass load factor has shown significant improvement compared to the prior period, increasing from 57% in 2013 to 71% this year. The load factor in 2013 reflected the challenges we faced using temporary systems, with only limited on-site storage available until the new systems were operational and reliability issues with coal wagons converted to transport biomass. As a result, operation from the first converted unit was materially constrained by fuel availability. These issues were largely overcome with the introduction of the new systems and bespoke rail wagons towards the end of 2013, resulting in a much higher load factor this year.

Coal
We continue to achieve good operating performance from our coal units. Our planned outage rate for the coal plant for the six months ended 30 June 2014 was 8.3%, compared to 11.1% in 2013. Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. One unit is undergoing a major planned outage in 2014 (2013: two units, with one complete by the half year end).

The forced outage rate for our coal plant of 7.3% for the six months ended 30 June 2014 represented an improvement on the 7.6% for the same period in 2013, albeit slightly above our long-term target of 5%.

Coal plant availability for the six months ended 30 June 2014 was therefore 85% (2013: 82%) reflecting good operational performance which continues to demonstrate our leadership position amongst UK coal-fired plant. With strong plant despatch economics, the resulting load factor of 82% compares favourably with the average for other UK coal and gas plants.

The load factor for the plant as a whole for the six months ended 30 June 2014 was 81% compared to 77% in 2013, reflecting an increase in electrical output (net sales) to 12.9TWh in 2014, compared with 12.6TWh in 2013.

Retail

Retail gross profit	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Revenue	**513.0**	322.8	750.6
Cost of sales			
Cost of power purchases	**(304.6)**	(195.0)	(455.1)
Grid charges	**(116.8)**	(71.8)	(168.4)
Other retail costs	**(85.1)**	(46.5)	(111.6)
	(506.5)	(313.3)	(735.1)
Gross profit	**6.5**	9.5	15.5

Strategic value
The strategic value to the Group of Haven Power, the Group’s retail business, is in providing an alternative credit-efficient route to market for power, ROCs and LECs which enhances cash flows. The ROCs earned through burning biomass in the generation business can be utilised by the retail business through sales of power. Renewable and Climate Change Levy exempt power sales currently account for over half of Haven Power’s sales and these sales utilise the LECs earned by burning biomass.

In total, the business electricity market is c.190TWh per annum, and differs from the wholesale market in that collateral support is not usually required for forward power sales. In selling power into the retail market, rather than wholesale, the Group swaps collateral risk for credit risk, which is more controllable and is managed by assessing the financial strength of our customers and through rigorous credit management processes.

Growth
Haven Power is on track to deliver retail sales of between 12-15TWh by 2015 across the Industrial and Commercial (“I&C”) and Small and Medium Enterprises (“SME”) markets. As at July 2014, Haven Power had already contracted 10.6TWh for the next 12 months.

In the six months ended 30 June 2014, sales volumes rose 56% from 3.6TWh in 2013, to 5.6TWh driving an increase in revenue from £323 million to £513 million.

As Haven Power continues to deliver good volume growth, movements in the financial metrics are largely driven by these volumes.

Gross margin
The majority of revenue growth at Haven Power has been achieved through sales to the more competitive I&C market which has higher available volumes and lower gross margins than in the SME market.

The I&C and SME markets have been very competitive in both the current and prior period, which has impacted on margins achieved. In addition, rising grid charges and other retail cost of sales combined to drive a gross profit of £7 million for the six months ended 30 June 2014 compared to £10 million in 2013.

Group summary financial performance

Group results	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
Generation gross profit	**197.8**	206.5	429.6
Retail gross profit	**6.5**	9.5	15.5
Gross profit	**204.3**	216.0	445.1
Operating and administrative expenses	**(102.4)**	(96.0)	(215.1)
EBITDA	**101.9**	120.0	230.0
Depreciation	**(41.5)**	(28.8)	(64.8)
Unrealised (losses)/gains on derivative contracts	**(55.9)**	122.4	(110.2)
Operating profit	**4.5**	213.6	55.0
Finance costs	**(15.3)**	(8.0)	(23.2)
(Loss)/profit before tax	**(10.8)**	205.6	31.8
Tax	**4.1**	(41.7)	19.6
(Loss)/profit after tax	**(6.7)**	163.9	51.4

	Pence per share	Pence per share	Pence per share
Basic (losses)/earnings per share	**(2)**	41	13
Underlying earnings per share	**9**	17	35

Group operating and administrative expenses

Group operating and administrative expenses before depreciation were £102 million for the six months ended 30 June 2014 compared to £96 million in 2013, reflecting higher operating costs in the US business, where we will begin to commission the two pellet plants and port facility later this year, and the Front End Engineering and Design (“FEED”) study costs associated with our carbon capture and storage project (“CCS”).

We remain focussed on achieving strong operational cost performance and have kept a tight control over inflationary cost increases in our underlying cost base.

Group EBITDA

The Group EBITDA is primarily driven by the factors influencing the gross margin described above.

Generation EBITDA was £106 million for the period, compared to £121 million in 2013. The Retail business made a loss of £4 million at the EBITDA level, compared to a loss of £1 million last year.

Therefore Group EBITDA for the first six months of 2014 was £102 million, down 15% from £120 million for the same period in 2013.

Although the government has now frozen the UK carbon tax at around £18 per tonne for the period between 2016 and 2020, the tax will continue to erode the profitability of our coal-fired generation. This strengthens the case for biomass generation and supports our transformation strategy. Our financial performance must be viewed in the context of significant continued investment in our biomass transformation until our biomass operations reach an appropriate scale.

Depreciation

Depreciation and amortisation was £42 million for the six months ended 30 June 2014 and £29 million for the six months ended 30 June 2013. The year-on-year increase reflects the new biomass handling, storage and distribution systems at Drax Power Station, which are now approaching completion and are fully operational for the first two high percentage biomass units.

The depreciation charge will continue to increase as the continued significant investment in our biomass transformation comes on stream.

Unrealised gains and losses on derivative contracts

The Group enters into forward contracts for the sale and purchase of commodities, including the sale of power and purchase of fuel (incorporating coal, biomass and carbon emissions allowances), in order to secure market level dark green and bark spreads on future sales.

Where purchases of fuel are denominated in foreign currencies, are forecasted but not yet contracted, or have variable indexation elements, the Group enters into financial forward contracts to fix the future Sterling cost of these supplies.

Collectively these contracts aim to de-risk the business, providing secure cash flows into the future.

As we progress our biomass transformation strategy we have entered into an extensive hedging programme to support our biomass procurement activities and secure the Sterling cost of biomass. This programme covers all contracted and a substantial proportion of as yet un-contracted but forecast purchases and provides a significant degree of protection from adverse currency and indexation movements wherever possible.

Where possible, we take the own use exemption for contracts for the purchase and sale of non-financial items entered into and held for our own purchase, sale or usage requirements. The value of these contracts is not reflected in our accounts until the contracts close out and the commodity delivered.

Other forward contracts, which meet the definition of derivatives under IFRS, are included in our accounts at their fair value at the balance sheet date. Fair value is derived largely by reference to observable market prices at that date.

Unrealised gains and losses arise on the movements in fair value of these contracts between balance sheet dates. Where the contracts meet the definition of an effective hedge under IFRS, these unrealised gains and losses are recognised in the hedge reserve, a component of shareholders' equity in the balance sheet.

Where this definition is not met (from an accounting perspective, even though the contracts represent an economic hedge), the unrealised gains and losses are reflected in the income statement.

Accounting for derivative contracts	**Accounting treatment for gains/losses in the interim financial statements**
Commodity contracts	
Power	Hedge reserve
Coal from international sources	Income statement
Coal from domestic sources	Own-use exemption
Biomass	Own-use exemption
CO2 emissions allowances	Hedge reserve
Financial contracts	
Foreign currency exchange contracts	Income statement Hedge reserve
Financial coal	Income statement Hedge reserve
Other financial products	Income statement

Unrealised losses on derivative contracts recognised through the income statement for the first six months ended 30 June 2014 were £56 million, compared to unrealised gains in 2013 of £122 million. The movement in both periods was driven by the relative strength of Sterling against foreign currencies, principally the US dollar.

A weakening US dollar during the current period resulted in unrealised losses on these contracts, as market rates were preferential in comparison to contracted rates. In the first half of 2013 the opposite was true, as the US dollar strengthened and improved the position of our contracted rates compared to the market. The volumes of these contracts have increased significantly during the last year as we have looked to de-risk the business by securing our cash flows in Sterling.

In considering mark-to-market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green or bark spreads, not by the absolute price of any single commodity at any given date. We therefore look to underlying profit (excluding unrealised gains and losses on derivative contracts) as our performance indicator.

Interest
Net finance costs for the six months ended 30 June 2014 were £15 million compared to £8 million in 2013.

The higher charge for the first six months of 2014 reflects the additional costs associated with financing the investment in our biomass transformation. This includes interest on our borrowings which are described in further detail in the Liquidity and capital resources section below.

(Loss)/profit before tax
The loss before tax for the six months ended 30 June 2014 was £11 million compared to a profit of £206 million in the prior period.

This reduction has been driven by the unrealised losses on derivative contracts in 2014 of £56 million, compared to unrealised gains on derivative contracts of £122 million for the same period in 2013.

Underlying profit before tax, which excludes the effect of these items, amounted to £45 million for the six months ended 30 June 2014 compared to £83 million in 2013. The factors described above, including the increased cost of carbon, coupled with rising depreciation and finance charges, combine to drive this reduction.

Tax

Tax reconciliation for the six months ended 30 June 2014		**Statutory**		**Underlying**
	£m	%	**£m**	%
Loss/profit before tax	**(10.8)**		**45.1**	
Tax at 21.5%	**(2.3)**	21.5	**9.7**	21.5
Reconciling items:				
Prior year adjustments	**(1.7)**	(15.7)	**(2.7)**	(6.0)
Other	**(0.1)**	(0.9)	**-**	-
Total tax	**(4.1)**	(38.0)	**7.0**	15.5

The tax credit on the loss before tax for the six months ended 30 June 2014 was £4 million (2013: charge of £42 million).

The tax charge arising on underlying profit before tax for the six months ended 30 June 2014 of £7 million, reflects an average effective tax rate applicable for the period of 16%. This charge is based upon the standard rate of tax in the UK of 21.5%, less a small adjustment to prior year taxes.

The comparative period reflected an effective tax rate of 20% and included a tax credit of £6 million, relating to research and development claims, which were agreed with HMRC in that period.

In future years we would expect our underlying tax rates to be more closely aligned with standard corporate tax rates in the both the UK and US.

Loss after tax and earnings per share
Loss after tax for the six months ended 30 June 2014 was £7 million, compared to a profit of £164 million in 2013, resulting in basic losses per share of 2 pence in 2014 compared to earnings of 41 pence in 2013.

Underlying profit after tax, which strips out the impact of gains or losses on derivative contracts and the associated tax, for the six months ended 30 June 2014 was £38 million, compared to £70 million in 2013, resulting in an underlying earnings per share in 2014 of 9 pence per share, compared to 17 pence in 2013.

Liquidity and capital resources

Analysis of cash flows	**Six months ended 30 June 2014 £m**	Six months ended 30 June 2013 £m	Year ended 31 December 2013 £m
EBITDA	**101.9**	**120.0**	**230.0**
Increase in ROC assets	**(97.5)**	**(41.3)**	**(120.8)**
Decrease in carbon assets	**26.5**	**38.0**	**12.5**
Decrease in working capital	**34.2**	**11.7**	**48.0**
Other	**(1.3)**	**0.9**	**0.8**
Cash generated from operations	**63.8**	**129.3**	**170.5**
Income taxes paid	**(7.2)**	**(13.2)**	**(10.6)**
Other gains/(losses)	**4.3**	**(0.2)**	**2.2**
Net interest paid	**(12.3)**	**(5.0)**	**(19.8)**
Net cash from operating activities	**48.6**	**110.9**	**142.3**
Cash flows from investing activities			
Purchases of property, plant and equipment	**(120.3)**	**(133.2)**	**(301.7)**
Short-term investments	**-**	**10.0**	**10.0**
Net cash used in investing activities	**(120.3)**	**(123.2)**	**(291.7)**
Cash flows from financing activities			
Equity dividends paid	**(36.0)**	**(43.8)**	**(78.8)**
Proceeds from issue of share capital	**0.3**	**1.7**	**1.9**
Repayment of borrowings	**(0.1)**	**(0.1)**	**(0.7)**
New borrowings	**100.0**	**125.0**	**125.0**
Other financing costs paid	**(0.6)**	**(2.3)**	**(2.4)**
Net cash from financing activities	**63.6**	**80.5**	**45.0**
Net (decrease)/increase in cash and cash equivalents	**(8.1)**	**68.2**	**(104.4)**
Cash at 1 January	**267.3**	**371.7**	**371.7**
Cash at end of period	**259.2**	**439.9**	**267.3**
Short-term investments at end of period	**20.0**	**20.0**	**20.0**
Borrowings at end of period	**(316.9)**	**(214.8)**	**(216.1)**
Net (debt)/cash at end of period	**(37.7)**	**245.1**	**71.2**

Cash generated from operations

Cash generated from operations was £64 million in the six months ended 30 June 2014 compared to £129 million in 2013. This cash movement incorporates an £18 million reduction in EBITDA, coupled with a significant increase in ROC assets resulting from increased biomass generation. As noted above, the value of our ROCs and LECs generated is held on the balance sheet until the assets are sold to a third party, the timing of which is driven by RO deadlines and commercial considerations. As a consequence, the majority of the ROCs generated in 2014 will be sold in 2015 at which point the cash will be realised. This outflow was only partially mitigated by an inflow on carbon assets and other movements in working capital.

Net cash flows from operating activities

Falling profits, lower corporation tax rates and higher capital allowances arising from our capital investment have resulted in lower income taxes paid at £7 million in the six months ended 30 June 2014 (2013: £13 million). 2014 taxes paid include the settlement of the 2013 liability and are shown net of £2 million of refunds in relation to previous years.

Net cash used in investing activities

Purchases of property, plant and equipment of £120 million in the six months ended 2014 (2013: £133 million) continue to reflect the significant amount of investment across the business as we continue to progress our biomass transformation.

Net cash flows from financing activities
New loan facilities of £100 million were secured during the period (see Financing and cash flow management section). Equity dividends paid during the period amounted to £36 million (2013: £44 million)

Net debt/cash
The decrease in cash and cash equivalents was, therefore, £8 million in the six months ended 30 June 2014, compared to an increase of £68 million in 2013. As such, net debt (after deduction of borrowings) is £38 million compared to net cash of £245 million in 2013.

Financing and cash flow management
In May 2014, we agreed a new private placement for £100 million with various funds managed by M&G Investments. This complements our existing term loan facilities secured in 2012 and 2013, enhances the existing financing structure by providing additional liquidity to the Group and ensures a smoother profile of debt maturities. Furthermore, the all-in cost of the new facility is very competitive.

The Group financing structure also incorporates the £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, agreed last year, a £50 million amortising term loan from the Green Investment Bank, a £100 million amortising term loan facility with the M&G UK Companies Financing Fund and a £400 million working capital and letter of credit facility. The loans have varying maturity profiles ranging from 2017 to 2025, whilst the working capital and letter of credit facility is due to mature in April 2016.

In addition, we have a commodity trading facility, which allows us to transact prescribed volumes of commodity trades at attractive prices without the requirement to post collateral. This facility continues to operate well, offering trading counterparties uncapped access to the security package available to our senior lenders.

Overall, the financing structure is a key component of the steps we have taken over the past few years to restructure our business, financing and trading arrangements to enable Drax to both invest to strengthen and secure the potential of the business, whilst being able to operate comfortably at sub-investment grade level.

In addition to the financing structure, towards the end of 2013, we completed our first ROC monetisation facility. As described above, cash for ROC sales can often flow back to renewable generators some time after the associated power was produced. This can result in significant working capital absorption. We agreed an £80 million facility with Lloyds Bank Commercial Finance Limited, which allows Drax to sell ROC receivables and accelerate these cash flows.

Capital expenditure
Fixed asset additions were £123 million in the six months ended 30 June 2014 compared to £138 million in 2013.

More broadly, we expect to spend £650 - £700 million in total (between 2011 and 2017) on progressively converting three generating units to biomass, together with the required supporting infrastructure and systems, completing the two US pellet plants and port facility and ensuring compliance with the requirements of the Industrial Emissions Directive ("IED").

At Drax Power Station, construction work on the remaining on-site infrastructure required to support our biomass transformation project is continuing. We expect this work to be complete by the end of 2014. These systems will provide us with the ability to unload rail wagons efficiently, store up to 300 thousand tonnes of biomass on-site and deliver it direct to the combustion systems.

In the US, we continue to expect commercial operations at our first pellet plant and port facility to begin in the first quarter of 2015, with commercial operations at the second pellet plant following on in the second quarter. We would expect to achieve full capacity from the pellet plants six months after commissioning.

Our lead case investment for IED compliance remains unchanged, incorporating the implementation of low nitrogen oxide ("NOx") burners and Selective Non-Catalytic Reduction ("SNCR") technology across all units. We expect to invest £75 - £100 million in this project over the next four years.

In addition to the biomass transformation capital expenditure, we are investing a further £90 million between 2014 and 2016 to optimise the performance of three biomass units. This investment secures improved unit output (at 630MW) and efficiency (at 0.5% lower than coal), with no loss of unit flexibility. Returns are strong, with payback in less than four years.

As described in the Chief Executive's statement, we continue to evaluate the potential for a fourth unit conversion and for further investment in the biomass supply chain. In particular, we have identified the opportunity to accelerate investment in a third US pellet plant in the US Gulf. We are also considering the possibility of a US East Coast pellet operation.

Other information

Going concern

The Group's business activities, together with the factors likely to affect future developments, performance and position including principal risks and uncertainties are set out in the Chief Executive's statement, this Operational and financial performance section, and the principal risks and uncertainties section which follows. Our cash flows and borrowing facilities are described above.

We have significant headroom in our banking facilities, a recent history of cash generation, strong covenant compliance, and good visibility in near-term forecasts due to our hedging strategy. Our business plan, taking account of our capital investment plans and reasonably possible changes in trading performance, demonstrates that we expect to be able to operate within the level of our current banking facilities.

Accordingly, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future, and continue to adopt the going concern basis of accounting when preparing these financial statements.

Seasonality of borrowing

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £400 million working capital and letter of credit facility assists in managing the cash low points in the cycle if required.

Contingent liability

We were obliged under the Community Energy Saving Programme ("CESP") to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain during the period 1 October 2009 to 31 December 2012. We entered into an agreement with a third party, pursuant to which the third party was obliged to deliver our CESP obligation for a total cost of £17 million. The third party failed to comply fully with its obligation under the agreement, leaving a significant shortfall against our CESP obligation. Drax Power is considering legal proceedings for breach of contract against the third party. We entered into further agreements with additional third parties in order to rectify this shortfall so far as practicable.

At this stage it is not possible to predict whether any enforcement action may be imposed by the Gas and Electricity Markets Authority. No additional provisions have been recognised in respect of this matter as we are not able to reliably measure what the financial impact, if any, might be.

Future developments

The key potential future developments for our business are all set out in the Chief Executive's statement. These include developments in regulation (including the Renewables Obligation, Contracts for Difference and EU State aid) and potential future investments (in the biomass supply chain and a fourth unit conversion, which are also covered in Capital expenditure above) and CCS.

Positions under contract

As at 21 July 2014, the positions under contract for the sale of power for 2014 and 2015:	2014	2015
Power sales (TWh) comprising:	25.3	12.4
– Fixed price power sales (TWh) at an average achieved price (per MWh)	23.9 at £52.01	10.1 at £53.52
– Fixed margin and structured power sales (TWh)	1.3	2.3

Distributions

Distribution policy

The Board has previously committed to target a pay-out ratio of 50% of underlying earnings (being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts) in each year. Underlying earnings for the period ending 30 June 2014 were £38 million.

As described in this half year report, we are transforming our business to become a predominantly biomass-fuelled power generator, vertically integrated through the biomass supply chain to retail sales to business customers. As our business model changes we will develop, in parallel, an optimal capital structure and distribution policy, aligned to the future of the business.

Dividends paid

On 23 April 2014, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 23 April 2014, to pay a final dividend for the year ended 31 December 2013 of 8.9 pence per share (£36 million). The final dividend was subsequently paid on 14 May 2014.

Dividends proposed

On 28 July 2014, the Board resolved to pay an interim dividend for the six months ended 30 June 2014 of 4.7 pence per share (£19 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 10 October 2014 and shares will be marked ex-interim dividend on 24 September 2014.

Principal risks and uncertainties

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board. The principal risks and uncertainties that could impact performance. The nature of these risks remain unchanged, and are as follows:

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

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).

Condensed consolidated income statement

	Notes	Six months ended 30 June 2014 (Unaudited) £m	Six months ended 30 June 2013 (Unaudited) £m	Year ended 31 December 2013 (Audited) £m
Revenue		**1,256.5**	918.5	2,062.1
Fuel costs in respect of generation		**(481.8)**	(409.0)	(945.8)
Cost of power purchases		**(349.7)**	(145.6)	(352.5)
Grid charges		**(152.7)**	(102.4)	(238.8)
Other retail costs		**(68.0)**	(45.5)	(79.9)
Total cost of sales		**(1,052.2)**	(702.5)	(1,617.0)
Gross profit		**204.3**	216.0	445.1
Other operating and administrative expenses		**(102.4)**	(96.0)	(215.1)
EBITDA[1]		**101.9**	120.0	230.0
Depreciation and amortisation		**(41.5)**	(28.8)	(64.8)
Unrealised (losses)/gains on derivative contracts		**(55.9)**	122.4	(110.2)
Operating profit		**4.5**	213.6	55.0
Interest payable and similar charges		**(15.8)**	(9.0)	(24.8)
Interest receivable		**0.5**	1.0	1.6
(Loss)/profit before tax		**(10.8)**	205.6	31.8
Tax	4	**4.1**	(41.7)	19.6
(Loss)/profit for the period attributable to equity holders		**(6.7)**	163.9	51.4
Underlying profit for the period [2]		**38.0**	69.7	142.3
(Loss)/earnings per share		**pence**	pence	pence
– Basic	6	**(2)**	41	13
– Diluted	6	**(2)**	40	13

All results relate to continuing operations.

(1) EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.

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

Condensed consolidated statement of comprehensive income

	Six months ended 30 June		Year ended 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
(Loss)/profit for the period	**(6.7)**	163.9	51.4
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension scheme	**(8.6)**	(2.9)	(2.8)
Deferred tax on actuarial losses on defined benefit pension scheme	**1.7**	0.7	0.6
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	**4.4**	-	2.0
Fair value gains/(losses) on cash flow hedges	**73.5**	(32.9)	(58.7)
Deferred tax on cash flow hedges	**(14.7)**	7.6	8.6
Impact of corporation tax rate change on deferred tax asset on cash flow hedges	**-**	-	2.6
Other comprehensive income/(expense) for the period	**56.3**	(27.5)	(47.7)
Total comprehensive income for the period attributable to equity holders	**49.6**	136.4	3.7

Condensed consolidated balance sheet

	Notes	As at 30 June 2014 (Unaudited) £m	As at 30 June 2013 (Unaudited) £m	As at 31 December 2013 (Audited) £m
Assets				
Non-current assets				
Goodwill and other intangible assets		**10.7**	11.7	37.2
Property, plant and equipment		**1,662.7**	1,464.8	1,581.4
Derivative financial instruments		**10.3**	71.8	8.7
		1,683.7	1,548.3	1,627.3
Current assets				
Inventories		**225.4**	207.5	196.5
ROC and LEC assets		**237.0**	60.0	139.5
Trade and other receivables		**222.1**	169.7	246.2
Derivative financial instruments		**128.6**	77.2	29.6
Short-term investments		**20.0**	20.0	20.0
Cash and cash equivalents		**259.2**	439.9	267.3
		1,092.3	974.3	899.1
Liabilities				
Current liabilities				
Trade and other payables		**407.0**	282.4	365.5
Current tax liabilities		**6.8**	3.1	9.7
Borrowings		**0.1**	0.3	0.2
Derivative financial instruments		**90.1**	133.4	105.2
		504.0	419.2	480.6
Net current assets		**588.3**	555.1	418.5
Non-current liabilities				
Borrowings		**316.8**	214.5	215.9
Derivative financial instruments		**310.1**	36.3	212.1
Provisions		**33.0**	31.9	32.4
Deferred tax liabilities		**138.4**	202.4	133.8
Retirement benefit obligations		**47.0**	43.5	41.7
		845.3	528.6	635.9
Net assets		**1,426.7**	1,574.8	1,409.9
Shareholders' equity				
Issued equity		**46.5**	46.4	46.5
Capital redemption reserve		**1.5**	1.5	1.5
Share premium		**422.8**	422.3	422.5
Merger reserve		**710.8**	710.8	710.8
Hedge reserve	9	**(5.1)**	(41.7)	(63.9)
Retained profits		**250.2**	435.5	292.5
Total shareholders' equity		**1,426.7**	1,574.8	1,409.9

Condensed consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained profits £m	Total £m
At 1 January 2013	**46.4**	**1.5**	**420.7**	**710.8**	**(16.4)**	**314.3**	**1,477.3**
Profit for the year	-	-	-	-	-	51.4	51.4
Other comprehensive expense	-	-	-	-	(47.5)	(0.2)	(47.7)
Total comprehensive (expense)/income for the year	-	-	-	-	(47.5)	51.2	3.7
Equity dividends paid	-	-	-	-	-	(78.8)	(78.8)
Issue of share capital	0.1	-	1.8	-	-	-	1.9
Movement in equity associated with share-based payments	-	-	-	-	-	5.8	5.8
At 31 December 2013	**46.5**	**1.5**	**422.5**	**710.8**	**(63.9)**	**292.5**	**1,409.9**
At 1 January 2013	**46.4**	**1.5**	**420.7**	**710.8**	**(16.4)**	**314.3**	**1,477.3**
Profit for the period	-	-	-	-	-	163.9	163.9
Other comprehensive expense	-	-	-	-	(25.3)	(2.2)	(27.5)
Total comprehensive (expense)/income for the period	-	-	-	-	(25.3)	161.7	136.4
Equity dividends paid	-	-	-	-	-	(43.8)	(43.8)
Issue of share capital	-	-	1.6	-	-	-	1.6
Movement in equity associated with share-based payments	-	-	-	-	-	3.3	3.3
At 30 June 2013	**46.4**	**1.5**	**422.3**	**710.8**	**(41.7)**	**435.5**	**1,574.8**
At 1 January 2014	**46.5**	**1.5**	**422.5**	**710.8**	**(63.9)**	**292.5**	**1,409.9**
Loss for the period	-	-	-	-	-	(6.7)	(6.7)
Other comprehensive income/(expense)	-	-	-	-	58.8	(2.5)	56.3
Total comprehensive income/(expense) for the period	-	-	-	-	58.8	(9.2)	49.6
Equity dividends paid	-	-	-	-	-	(36.0)	(36.0)
Issue of share capital	-	-	0.3	-	-	-	0.3
Movement in equity associated with share-based payments	-	-	-	-	-	2.9	2.9
At 30 June 2014	**46.5**	**1.5**	**422.8**	**710.8**	**(5.1)**	**250.2**	**1,426.7**

Condensed consolidated cash flow statement

	Notes	Six months ended 30 June **2014 (Unaudited) £m**	2013 (Unaudited) £m	Year ended 31 December 2013 (Audited) £m
Cash generated from operations	10	**63.8**	129.3	170.5
Income taxes paid		**(7.2)**	(13.2)	(10.6)
Other gains/(losses)		**4.3**	(0.2)	2.2
Interest paid		**(12.4)**	(5.8)	(21.3)
Interest received		**0.1**	0.8	1.5
Net cash from operating activities		**48.6**	110.9	142.3
Cash flows from investing activities				
Purchases of property, plant and equipment		**(120.3)**	(133.2)	(301.7)
Short-term investments	11	**-**	10.0	10.0
Net cash used in investing activities		**(120.3)**	(123.2)	(291.7)
Cash flows from financing activities				
Equity dividends paid	5	**(36.0)**	(43.8)	(78.8)
Proceeds from issue of share capital		**0.3**	1.7	1.9
Repayment of borrowings		**(0.1)**	(0.1)	(0.7)
New borrowings		**100.0**	125.0	125.0
Other financing costs paid		**(0.6)**	(2.3)	(2.4)
Net cash generated from financing activities		**63.6**	80.5	45.0
Net (decrease)/increase in cash and cash equivalents	11	**(8.1)**	68.2	(104.4)
Cash and cash equivalents at beginning of the period		**267.3**	371.7	371.7
Cash and cash equivalents at end of the period		**259.2**	439.9	267.3

Notes to the condensed consolidated financial statements

1. General information

These notes provide additional detail on the disclosures within our interim financial statements. Throughout the notes, we have included explanations of the information presented.

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

2. Basis of preparation

This section describes the accounting standards we have applied in preparing these financial statements and the interpretation of those accounting standards into accounting policies which are relevant to our Group. We have not changed any of our accounting policies in the period, nor have any new accounting standards had a material effect on our financial statements.

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

During 2013 the Group conducted a review of its financial statements and concluded that an alternative presentation of the income statement would result in more relevant information for users in accordance with IAS 1.

As a result of this review, the Group now presents EBITDA as a separate line item on the face of the income statement. EBITDA is defined as earnings before the impact of interest, tax, depreciation, amortisation and unrealised gains or losses on derivative contracts.

The information for the year ended 31 December 2013 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The condensed consolidated financial statements were approved by the Board on 28 July 2014

Adoption of new and revised accounting standards
In 2013, a number of new standards and interpretations became effective. The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

Since the 2013 Annual report and accounts were published a number of new and revised standards were issued or became effective during the first 6 months of 2014.

The accounting policies adopted in the preparation of the financial information presented here are consistent with those followed in the preparation of the Group's Annual report and accounts for the year ended 31 December 2013.

3. Segmental reporting

We view our operational business as two distinct areas, or segments, the generation of electricity at Drax Power Station ("Generation") and the supply of power to business customers ("Retail"). The respective financial performance of these segments is shown here. The costs incurred by our US business, which is still in the development phase, are part of our Generation segment.

Information reported to the Board for the purposes of assessing performance and making investment decisions is organised into two operating segments, Generation and Retail. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is EBITDA, with sales between segments being carried out at arm's length.

Segment revenues and results

The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2014:

	Six months ended 30 June 2014 (Unaudited)			
	Generation £m	**Retail £m**	**Eliminations £m**	**Consolidated £m**
Revenue				
External sales	**743.5**	**513.0**	**-**	**1,256.5**
Inter-segment sales	**316.3**	**-**	**(316.3)**	**-**
Total revenue	**1,059.8**	**513.0**	**(316.3)**	**1,256.5**
Result				
Segment EBITDA	**106.1**	**(4.2)**	**-**	**101.9**
Central costs				
Depreciation and amortisation				**(41.5)**
Unrealised losses on derivative contracts				**(55.9)**
Operating profit				**4.5**
Net finance costs				**(15.3)**
Loss before tax				**(10.8)**

The following is an analysis of the Group's results by reporting segment in the six months ended 30 June 2013:

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

The following is an analysis of the Group's results by reporting segment in the year ended 31 December 2013:

	Year ended 31 December 2013 (Audited)			
	Generation £m	Retail £m	Eliminations £m	Consolidated £m
Revenue				
External sales	1,311.5	750.6	–	2,062.1
Inter-segment sales	468.4	–	(468.4)	–
Total revenue	1,779.9	750.6	(468.4)	2,062.1
Result				
Segment EBITDA	235.5	(5.5)	–	230.0
Central costs				
Depreciation and amortisation				(64.8)
Unrealised losses on derivative contracts				(110.2)
Operating profit				55.0
Net finance costs				(23.2)
Profit before tax				31.8

The accounting policies of the reportable segments are the same as the Group's accounting policies which are described in the Group's latest Annual report and accounts. The revenue and results of both segments are subject to seasonality as detailed in the Operational and financial performance review.

Assets and working capital are monitored on a Group basis with no separate disclosure of asset by segment made in the management accounts, and hence no separate asset disclosure is provided in this Half-year report. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during the first 6 months of 2014 was £87 million (2013: £105 million), of which £61 million related to construction of assets within our US business.

Major customers

There were no major customers for the six months ended 30 June 2014 representing 10% or more of the Group's revenue for the period (2013: £106.3 million derived from one customer).

4. Taxation

The tax (credit)/charge reflects an estimate of the corporation tax (receivable)/payable as a result of our activities during the period, including both current and deferred tax. Current tax is the amount payable on taxable profits in the period (which are adjusted for items upon which we are not required to pay tax, or in some cases for items upon which we are required to pay additional tax in respect of tax-disallowed expenditure). Deferred tax is an accounting adjustment which reflects where more or less tax is expected to arise in the future due to differences between the accounting and tax rules.

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

	Six months ended 30 June		Year ended 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
Tax (credit)/charge comprises:			
Current tax	**4.2**	1.7	5.5
Deferred tax:			
- Before impact of corporation tax rate change	**(8.3)**	40.0	(2.8)
- Impact of corporation tax rate change	**-**	-	(22.3)
Tax (credit)/charge	**(4.1)**	41.7	(19.6)

5. Dividends

Dividends are amounts we return to our shareholders and are paid as an amount per ordinary share. Our current dividend policy is to return 50% of underlying earnings (see note 6) to our shareholders each year. The remaining 50% is retained for reinvestment in the future growth of the business.

		Six months ended 30 June		Year ended 31 December
	Pence per share	**2014 (Unaudited) £m**	2013 (Unaudited) £m	2013 (Audited) £m
Amounts recognised as distributions to equity holders in the period (based on the number of shares in issue at the record date):				
Final dividend for the year ended 31 December 2013 paid 14 May 2014	**8.9**	**36.0**	-	-
Interim dividend for the year ended 31 December 2013 paid 11 October 2013	8.7	-	-	35.0
Final dividend for the year ended 31 December 2012 paid 17 May 2013	10.9	-	43.8	43.8
		36.0	43.8	78.8

On 28 July 2014, the Board resolved to pay an interim dividend for the six months ended 30 June 2014 of 4.7 pence per share (equivalent to approximately £19 million) on or before 10 October 2014. The interim dividend has not been included as a liability as at 30 June 2014.

6. Earnings per share

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

In addition to EPS, we calculate underlying EPS because it reflects the figures upon which our annual dividends are calculated (note 5). Underlying EPS strips out the post-tax effect of fair value movements on derivative contracts from earnings. Multiplying underlying basic EPS by 50% will give the dividend per share for the period.

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

	Six months ended 30 June		Year ended 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
Earnings:			
(Losses)/earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	**(6.7)**	163.9	51.4
Impact of unrealised gains and losses on derivative contracts	**55.9**	(122.4)	110.2
Tax (credit)/charge	**(11.2)**	28.2	(19.3)
Underlying earnings attributable to equity holders of the Company	**38.0**	69.7	142.3

	Six months ended 30 June		Year ended 31 December
	2014 (Unaudited)	2013 (Unaudited)	2013 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**403.9**	402.0	402.3
Effect of dilutive potential ordinary shares under share plans	**2.7**	3.4	4.6
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**406.6**	405.4	406.9

(Loss)/earnings per share – basic (pence)	**(2)**	41	13
(Loss)/earnings per share – diluted (pence)	**(2)**	40	13
Underlying earnings per share – basic (pence)	**9**	17	35
Underlying earnings per share – diluted (pence)	**9**	17	35

7. Derivative financial instruments

The accounting rules for derivative contracts are complex. Where such contracts do not qualify for the own use exemption we account for them at fair value, which is in essence the difference between the price we have secured in the contract, and that we could achieve in the market now, at the balance sheet date. The tables and commentary below provide additional detail around these values, how they are calculated and the changes in underlying market conditions that drive their movements.

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

	As at 30 June		As at 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
Assets			
Commodity contracts	**126.8**	15.8	25.6
Financial contracts	**12.1**	133.2	12.7
	138.9	149.0	38.3
Liabilities			
Commodity contracts	**(29.9)**	(76.1)	(20.6)
Financial contracts	**(370.3)**	(93.6)	(296.7)
	(400.2)	(169.7)	(317.3)

As described in Operational and financial performance, contracts for the delivery of commodities are entered into to secure market level dark green and bark spreads on future power sales.

Financial contracts are principally comprised of forward foreign currency exchange contracts utilised to secure future Sterling cash flows on commodity purchases denominated in foreign currencies.

The fair value of commodity contracts and financial contracts is largely determined by comparison between forward market prices and the contract price, therefore these contracts have been grouped into Level 2 within the fair value hierarchy in their entirety.

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

The balance sheet position of the Group's derivative financial instruments has improved slightly in the first half of 2014. Falling power prices during the period have resulted in unrealised gains on forward contracts for the sale of power, offset by increased losses on forward currency exchange contracts resulting from continued strengthening of Sterling against foreign currencies, principally the US Dollar.

8. Other financial instruments

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

Fair value

Cash and cash equivalents, short-term investments, trade and other receivables, and trade and other payables generally have short times to maturity. For this reason, their carrying values approximate to their fair value. The Group's borrowings relate principally to amounts drawn down against term loans, the carrying amounts of which approximate their fair values by virtue of being floating rate instruments.

9. Hedge reserve

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

The Group designates certain hedging instruments used to address commodity price risk and foreign exchange risk as cash flow hedges. At the inception of the hedge, the relationship between the hedging instrument and hedged item is documented, along with its risk management objectives. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instruments used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in fair value of contracts designated into such hedging relationships are recognised within the hedge reserve to the extent they are effective, ineffectiveness is recognised in the income statement.

Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered. For foreign currency this is when the associated foreign currency transaction is recognised.

	As at 30 June 2014 (Unaudited)			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**75.1**	**1.5**	**0.1**	**76.7**
Financial contracts	**(10.1)**	**(9.5)**	**(62.2)**	**(81.8)**
	65.0	**(8.0)**	**(62.1)**	**(5.1)**

	As at 30 June 2013 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(37.7)	(5.3)	0.2	(42.8)
Financial contracts	0.3	(0.1)	0.9	1.1
	(37.4)	(5.4)	1.1	(41.7)

	As at 31 December 2013 (Audited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	(6.2)	(1.5)	0.1	(7.6)
Financial contracts	(6.5)	(2.8)	(47.0)	(56.3)
	(12.7)	(4.3)	(46.9)	(63.9)

10. Cash generated from operations

Cash generated from operations is the starting point of our cash flow statement. This table makes adjustments for any non-cash accounting items to reconcile our profit for the period to the amount of physical cash we have generated from our operations (i.e. sourcing, generating and selling electricity).

	Six months ended 30 June		Year ended 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
(Loss)/profit for the period	**(6.7)**	163.9	51.4
Adjustments for:			
Interest payable and similar charges	**15.8**	9.0	24.8
Interest receivable	**(0.5)**	(1.0)	(1.6)
Tax (credit)/charge (note 4)	**(4.1)**	41.7	(19.6)
Depreciation and amortisation	**41.5**	28.8	64.8
Unrealised losses/(gains) on derivative contracts	**55.9**	(122.4)	110.2
Defined benefit pension scheme charge	**3.1**	2.9	5.8
Non-cash charge for share-based payments	**2.8**	3.3	5.8
Operating cash flows before movement in working capital	**107.8**	126.2	241.6
Changes in working capital:			
Increase in inventories	**(28.9)**	(49.9)	(38.9)
Decrease/(increase) in receivables	**24.6**	55.2	(21.4)
Increase in payables	**38.5**	6.4	108.3
Total decrease in working capital	**34.2**	11.7	48.0
Decrease in carbon assets	**26.5**	38.0	12.5
Increase in ROC and LEC assets	**(97.5)**	(41.3)	(120.8)
Defined benefit pension scheme contributions	**(7.2)**	(5.3)	(10.8)
Cash generated from operations	**63.8**	129.3	170.5

11. Reconciliation of net (debt)/cash

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

	As at 30 June		As at 31 December
	2014 (Unaudited) £m	2013 (Unaudited) £m	2013 (Audited) £m
Net cash at 1 January	**71.2**	311.0	311.0
(Decrease)/increase in cash and cash equivalents	**(8.1)**	68.2	(104.4)
Decrease in short-term investments	**-**	(10.0)	(10.0)
Increase in net borrowings	**(100.8)**	(124.1)	(125.4)
Net (debt)/cash at period end	**(37.7)**	245.1	71.2

Financing

In 2014 we agreed a new private placement for £100 million with various funds managed by M&G Investments which will be used for general business purposes. The placement matures between May 2019 and May 2025.

As detailed in the Operating and financial performance, our existing facilities include a £400 million credit facility which matures in April 2016, term loans totalling £225 million with maturity profiles between 2016 and 2020 and a commodities trading line that allows trading counterparties to benefit from the security package offered to our senior lenders, reducing the need for us to post collateral.

The new facility along with existing term loans, totalling £325 million, was fully drawn down at the half-year end.

12. Contingent liabilities

Contingent liabilities are potential future outflows of cash that are dependent upon a future event that is outside of our control; the payment either cannot be measured reliably, or is considered to be unlikely.

Community Energy Saving Programme
Drax Power Limited ("Drax Power") was obliged under the Electricity and Gas (Community Energy Saving Programme) Order 2009 ("CESP") to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain during the period 1 October 2009 to 31 December 2012 (the "Obligation Period"). Drax Power's obligation was to deliver 895,138 lifetime tonnes of CO_2 savings. It entered into an agreement with a third party, pursuant to which the third party was obliged to deliver its CESP obligation, for a total cost of £17 million. The third party has failed to comply fully with its obligation under the agreement, leaving a significant shortfall against Drax Power's CESP obligation. Drax Power is considering legal proceedings for breach of contract against the third party.

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

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

Representatives of Drax Power had an initial meeting with the Ofgem enforcement team in June 2013, following which it received a formal information request. Drax Power is co-operating fully with the investigation and has provided a full response to the information request. In January and May 2014, Drax Power submitted responses to further information requests. Ofgem has informed Drax Power that it expects to complete its analysis of the evidence by the early Summer and, if it decides that there is a case to answer, to issue a statement of case or invitation to settle by no later than the Autumn of 2014. As a result, it is not possible to predict accurately what, if any, enforcement action may be taken at this stage.

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

Glossary

Advantaged Fuels
Fuel that gives a price advantage against standard bituminous coals. Such fuels include pond fines, off-specification coal and petcoke.

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

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

Average achieved price
Power revenues divided by volume of net sales (includes imbalance charges).

Balancing mechanism
The sub-set of the market through which the System Operator can call upon additional generation/consumption or reduce generation/consumption or reduce generation/consumption, through market participants' bids and offers, in order to balance the system minute-by-minute.

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

Carbon price support mechanism (or carbon price floor or carbon tax)
A tax upon fossil fuels (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.

EBITDA
Profit before interest, tax, depreciation and amortisation, gains or losses on disposal of property, plant and equipment and unrealised gains/(losses) on derivative contracts.

EU ETS
The EU Emissions Trading System is a mechanism introduced across the EU to reduce emissions of CO_2; the scheme is capable of being extended to cover all greenhouse gas emissions.

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.

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

IFRSs
International Financial Reporting Standards.

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

Levy control framework
A control framework for DECC levy-funded spending intended to make sure that DECC 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 injury rate (LTIR)
The frequency rate is calculated on the following basis: lost time injuries/hours worked times 100,000. Lost time injuries are defined as occurrences where the injured party is absent from work for more than 24 hours.

Net balancing mechanism
Net volumes attributable to accepted bids and offers in the Balancing Mechanism.

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

Net sales
The aggregate of net volumes attributable to bilateral contracts, power exchange trades and net balancing mechanism.

Net sales at notional balancing point (NBP)
Net sales at NBP is the volume of power sold to customers by our Retail business expressed at the NBP. The NBP reflects the volume of power sold before deduction of transmission and distribution losses incurred in transporting this power from the grid to the customer meter.

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

Planned outage rate
The capacity not available due to planned outages expressed as a percentage of the maximum theoretical capacity.

Power exchange trades
Power sales or purchases transacted on the APX UK power trading platform.

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

Summer
The calendar months April to September.

System operator
National Grid Electricity Transmission. Responsible for the co-ordination 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.

UK NAP
UK National Allocation Plan.

Underlying financial measures
We report financial measures described as “underlying” such as profit after tax and earnings per share. Underlying measures are adjusted to exclude the impact of gains and losses on derivative contracts and the associated tax.

Winter
The calendar months October to March.