28 July 2015

DRAX GROUP PLC (Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2015

Delivering Europe's largest decarbonisation project, on time and on budget, whilst producing 8% of the UK's electricity

Six months ended 30 June	2015	2014
Key financial performance measures		
EBITDA (£ million)[(1)]	120	102
Underlying earnings (£ million)[(2)]	41	38
Underlying earnings per share (pence)[(2)]	10.2	9.4
Total dividends (pence per share)[(3)]	5.1	4.7
Statutory accounting measures		
Profit / (loss) before tax (£ million)	53	(11)
Reported basic earnings / (losses) per share (pence)	10	(2)

Financial and Operational Highlights

- H1 2015 EBITDA reflects good operations at Drax Power Station
- Biomass investments protecting the business from increasing cost of UK carbon tax
- Continued weak commodity markets
- EBITDA outlook for 2015 reduced to reflect LEC[(4)] removal announcement on 8 July 2015

Biomass Transformation Highlights

- Increasing biomass generation – 37% of net power sales in H1 2015 (23% in H1 2014)
- Awaiting outcome of EU State aid process on Early CfD for third unit conversion
  - Now operating as a higher biomass unit
  - Full conversion once State aid process concludes
- Carbon saved when three units fully converted – c.12 million tonnes per annum

Dorothy Thompson, Chief Executive of Drax, said:

"Drax has performed extremely well over the last six months and we are well advanced with our long-term strategy to become a predominantly biomass-fuelled power provider.

"While there are elements outside our control, particularly regulatory challenges and weak commodity markets, the underlying fundamentals of the Group remain strong.

"The UK needs to go green in an affordable way, and is looking to Drax to play a significant role. Through our continued transition to sustainable biomass we are Europe's largest single source of renewable energy, powering the UK's homes and businesses with reliable, low carbon and affordable electricity.

"Drax is uniquely placed to provide a solution to the UK's needs over the decades ahead and, as such, we expect the potential long-term value of the business to become increasingly evident. Importantly our business sector requires long-term investment and we need a stable policy and regulatory regime to support it. We look forward to continuing our discussions with Government to ensure we can deliver what the UK needs in the most effective way."

H1 2015 Group Financial Review

- EBITDA for H1 2015 up 18% at £120 million
  - Adverse impact of LEC removal c.£30 million in H2 2015 and c.£60 million in 2016
- Underlying earnings per share increased 8% to 10.2 pence
  - Higher depreciation, reflecting biomass investments
- Tax rate on underlying profits of 26%
  - Expect tax on underlying profits for the full year to be a small credit, reflecting impact on deferred tax of corporation tax rate reductions proposed in the summer Budget
- Capital investment: on track to complete biomass transformation in line with original cost guidance of £650 - £700 million (3 unit conversions, US supply chain investments and IED(5) compliance)
  - H1 2015 capital investment of £54 million
  - Full year capital investment guidance unchanged at c.£150 million
- Interim dividend of 5.1 pence per share, or £21 million (H1 2014: 4.7 pence per share, or £19 million), in line with policy to distribute 50% of underlying earnings
- Strong balance sheet
  - Closing cash of £282 million and net debt of £40 million (net debt at 31 December 2014: £99 million)

H1 2015 Business Review

Generation (Drax Power)

- Generation: electricity output (net sales) of 14.0TWh (H1 2014: 12.9TWh)
  - Significant increase in biomass generation to 5.2TWh (H1 2014: 3.0TWh)
- Fuel: good progress with near-term biomass volumes, but lower levels contracted from 2016/17
  - CfD would underpin acceleration of long-term supply chain development

Retail (Haven Power)

- Growth in line with strategic plans and good progress with large contracts
  - Delivered 6.8TWh of sales through Haven (H1 2014: 5.6TWh)
  - Sales of £629 million (H1 2014: £513 million)

Biomass Supply (Drax Biomass)

- Baton Rouge port facility now fully operational and exporting biomass pellets
- Two pellet plants making steady progress
  - Morehouse plant now in commercial operations
  - Amite plant in final commissioning – expect commercial operations later this summer

Notes:

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

(2) H1 2015 underlying earnings exclude unrealised losses on derivative contracts of £3 million (H1 2014: unrealised losses of £56 million) and the associated tax.

(3) Based on 50% of underlying earnings.

(4) LEC is Levy Exemption Certificate.

(5) IED is Industrial Emissions Directive.

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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 today at 9:00am (UK Time), at **Deutsche Bank, Winchester House, 1 Great Winchester Street, London, EC2N 2DB**.

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>>2015 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 28 July 2015
Event Time	9:00am (UK time)
UK Call-In Number	0808 109 0700
International Call-In Number	+44 (0) 203 003 2666
Webcast Live Event Link	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/48543/Lobby/default.htm
Instant Replay	
UK Call-In Number	0800 633 8453
International Call-In Number	+44 (0) 208 196 1998
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Passcode:	8121396#
Start Date:	Tuesday 28 July 2015
Delete Date:	Monday 3 August 2015
Video Webcast	
Start Date:	Tuesday 28 July 2015
Delete Date:	Wednesday 27July 2016
Archive Link:	http://cache.merchantcantos.com/webcast/webcaster/4000/7464/16533/48543/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

It is a genuine privilege to have been appointed Chairman of Drax. I join at an exciting but challenging time as the business moves towards the conclusion of its biomass transformation and we begin to consider new and complementary business opportunities.

Drax delivered a strong operational performance in the first half of 2015. Group EBITDA was up 18% to £120 million (2014: £102 million), reflecting an increase in biomass generation. However, the Group continues to face challenges with returns from wholesale generation due to a low pricing environment and reduction in the support for renewable generation.

Notwithstanding this, the Group has delivered 10.2 pence of underlying earnings per share which, in line with our dividend policy, will result in a payment to shareholders of 5.1 pence per share (equivalent to £21 million), an 8% increase from 2014 (4.7 pence per share, equivalent to £19 million).

UK energy policy for the new government continues to focus on the three key pillars of affordability, security of supply and carbon emission reduction. Drax occupies a leading and unique position in the UK, generating reliable, affordable, low carbon power on a baseload basis from sustainable biomass. As the UK's single largest generator of renewable energy, Drax should be a cornerstone of UK generation for the long term. We were therefore disappointed and surprised that the recent Budget included the removal of the Climate Change Levy exemption for power generated from renewable sources. We remain committed to working constructively with UK Government to forge a sustainable and stable regulatory framework that encourages and rewards the required investment in our key sector.

I would like to thank my predecessor, Charles Berry, who oversaw the remarkable transformation of Drax from a company focused on a single coal fired generating asset, to a group generating renewable power at scale, with integrated upstream and downstream operations. Thanks must also go to our former Finance Director, Tony Quinlan, who left the group at the end of June after playing a key leadership role in this endeavour.

As I visit all parts of the Group, I have been struck by the high calibre of individuals at every level of the business. Drax has an outstanding management team which in turn is supported by a first class group of committed, passionate, and highly capable colleagues. My thanks go to them all for their hard work and enthusiasm.

Philip Cox CBE
Chairman
27 July 2015

Chief Executive's overview

Drax has performed extremely well over the period. An 18% increase in EBITDA to £120 million (H1 2014: £102 million) was driven in part by an increased use of sustainable biomass (37% vs 23% in H1 2014) which acts as a strong hedge against a rising UK carbon tax. This increased use of biomass confirms our position as Europe's single largest decarbonisation project and, as evidence of this, in the last few days we have abated our 20 millionth tonne of carbon.

I am pleased with our achievements so far in our biomass transformation project. When we started our journey some years ago to convert half of our plant to run on sustainable biomass, many said it was too ambitious. Yet our capable, dedicated and creative team proved the doubters wrong. We are well on the way towards completing the transformation and I believe we have achieved something unique; delivering reliable and affordable low-carbon electricity at scale from sustainable biomass.

In the first half our business units all performed well, although we continue to be adversely impacted by weak commodity markets and see no improvement in the short term. Haven secured a number of significant new contract wins including one with Thames Water with expected revenues of £500 million in the first five years of the contract. We are optimistic about the potential for growth of the nascent UK biomass heating market and in the period acquired Billington Bioenergy, the UK's second largest supplier of biomass for heat.

The recent announcement by the government that it will remove the Climate Change Levy (CCL) exemption for renewable electricity was a shock to the industry, representing an about-turn in a well-entrenched policy that has been a key underpinning for renewable investments since 2001. The immediate impact of this change for Drax will be to reduce EBITDA for 2015 by approximately £30 million and more in future years. Like many in our sector, and indeed business in general, we long for a stable regulatory framework which will allow us to invest in our country's infrastructure with confidence. We continue to work hard with the government to achieve this.

In recognition of the increased breadth and depth of our Group, on 1 March we reorganised into three business units with a dedicated management team for each. This brings a sharper operational focus to each business and allows Group functions to find and optimise efficiencies and further develop the longer-term strategy.

We have already made good progress and are confident that we will identify further opportunities to improve and to optimise the Group's operations and financial position. This is particularly important in the light of the CCL exemption changes.

The long term value of Drax

Modern society is fundamentally dependent on a reliable and on-demand supply of electricity. The UK now has almost 20GW of installed wind and solar capacity,[(1)] more than five times the capacity of Drax. This is increasing the instability of the grid – and the cost implications are mounting. We estimate that the wholesale electricity market equivalent annual sales value of UK electricity is worth some £15 billion, of which at least £1 billion is accounted for by the costs of balancing the system. This cost is forecast to double over the next five years.

The drivers for this are straight forward: tighter generation capacity margins coupled with increasing intermittent generation. Aggregate wind farm and solar output in the UK can be expected to fall below 1% of total electricity production with reasonable regularity.[(2)] However, an electricity supply that includes highly variable energy sources can still be reliable overall, so long as there is enough flexible plant in the generation mix to respond quickly to changes in the supply/demand balance. If that plant can do so in a low carbon manner then it is all the more advantageous. It is for this reason that we believe electricity generated from sustainable biomass should play a central and long-term role in the future energy mix of the UK and why we remain convinced of the long-term value inherent within the Group.

Our acquisition of Billington Bioenergy reflects the significant potential we foresee for biomass within the UK market for heating purposes, provided that government continues to pursue its policy objective of material decarbonisation of heat in the UK. As noted above, the Group believes this to be a strong growth market and we intend to play a full and active role. The use of biomass for heat in the UK is currently less than 1%, which is low compared to European peers (for example, France and Germany). With support from the Renewable Heat Incentive (RHI) and increased consumer awareness of the benefits of sustainable biomass, the government expect the size of the market to increase five-fold by 2020.(3)

Operational update

Safety

We have maintained our excellent safety record and in May Drax Power Station was awarded the maximum five stars in the British Safety Council's Five Star Occupational Health and Safety Audit.(4) During the five day audit, which is globally benchmarked, auditors reviewed our safety management systems, interviewed colleagues and took a site tour and inspection to get a comprehensive picture of our health and safety culture. The result was a near perfect score which places us amongst the very best in the world.

Sustainability

The weight of academic evidence from around the world states that sustainable biomass is significantly lower in carbon emissions than coal. All Drax biomass is sustainable and procured against a robust industry leading policy which is independently audited and verified. We are investing in people and resources to promote a wider recognition of the true benefits of low-carbon sustainable biomass.

One step towards this is our work with the Sustainable Biomass Partnership (SBP) a European biomass industry-led initiative with a vision to enable an economically, environmentally and socially sustainable solid-biomass supply chain that contributes to a low carbon economy. Its core objective(5) is to provide an effective mechanism that enables producers and users of solid-biomass for energy production to demonstrate compliance with all relevant regulatory and sustainability requirements. In March this year SBP launched in Brussels its sustainability standards for biomass. We and the other members of SBP are now working with certification companies and our biomass suppliers to certify compliance with these standards for our biomass fuel.

Drax Power

At the core of the Group is a very high quality power station which is critical to the security of electricity supply in the UK. It performed well over the period with strong generation output from both our coal and biomass fired units. There has been increased prompt market and system balancing activity which plays to our strengths and demonstrates our importance to the Grid to ensure system stability and security.

Biomass accounted for 37% of our generation (H1 2014 23%) which in the process generated 5.2TWh. Depending upon how our coal units operate over the remainder of the summer and into the first half of winter, we expect generation parity between our coal and biomass units over the full year.

Fuel procurement is a critical core competency for the Group. We have taken steps to increase our sourcing of low-nitrogen coal which, together with capital investment and process efficiencies, will ensure we meet the new Industrial Emissions Directive which comes into force in 2016. We also continue to improve and to strengthen our biomass sourcing which includes our upstream operations in the US.

We remain affected by the continued weakness in the commodity markets. Low gas prices continue to depress the power markets, although the international coal market also remains weak.

Drax Biomass

Our two pellet plants continue to make steady progress. We have been producing our own pellets since the start of the year and have successfully dispatched large shipments to the UK which have been burnt in our converted units.

The plant at Morehouse is already in commercial operations whilst the plant at Amite is now in the final stage of commissioning and will move into commercial operations later this summer. The port facility in Baton Rouge is fully operational, receiving pellets from our facilities as well as third party suppliers.

We continue to evaluate the potential of a third pellet plant in south-eastern USA which would export through the Baton Rouge facility.

<u>Haven Power</u>

Haven now supplies almost half of the electricity generated by Drax Power to approximately 40,000 UK business locations; from the very largest FTSE100 companies to firms with just a handful of employees. It is at the forefront of service innovation in the industry and regularly wins new business from its much larger competitors, with Thames Water being just one recent example of this. Over the period, sales increased to £627 million (H1 2014: £513 million).

By improving our service and providing the products and services UK business needs, we broaden and deepen existing relationships and increase the value that Haven provides to the Group. Over the period, renewals amongst industrial and commercial customers remained high. At the same time, the credit quality of customers remained healthy with low bad debt experience reflecting our robust finance and operational processes.

Regulatory update

We continue to work with government on regulatory support for biomass. In December the UK's mandatory standards for sustainable biomass are expected to come into effect. As the industry leader we are confident of our compliance with these standards.

We are also engaged with government regarding EU State Aid approval for the contract for difference awarded to our 3rd unit conversion as well as progressing discussions on the potential for further unit conversions.

In July the government confirmed its policy intent to suspend grandfathering of the level of support under the Renewables Obligation for all new biomass conversions, with the sole exception of projects which have been awarded an early contract for difference and are in the process of securing EU State Aid approval. This confirms grandfathering protection under the Renewables Obligation for our 3 unit original transformation project, but there would be no similar protection for any further unit conversions we might consider under this scheme. It is the government's preference that any future unit conversions are supported through its contracts for difference programme. The government has advised that it will provide guidance on its future proposals for this programme in the autumn.

Outlook

The underlying fundamentals of the Group remain strong: we have confidence in our ability to generate affordable and reliable renewable energy with sustainable biomass; we have a resilient and diverse supply chain; and we play a strategic role in security of supply (which is more complex than meeting peak demand).

With our third unit now modified to enable enhanced co-firing of biomass, our immediate priorities are: to complete the commissioning of our two pellet plants in the US; to work closely with the EU for a successful outcome to the State aid process; and to continue to strengthen our biomass supply chain.

As we move towards completion of our biomass transformation, the Group remains alert to new opportunities for growth and to create incremental shareholder returns. We have begun a strategic review to consider the long term options for the Group.

Britain needs affordable decarbonisation. Biomass has a significant role to play in this. Drax stands ready and able to convert further units in order to help the country achieve its renewable energy objectives in a pragmatic and economical way. We look forward to continuing discussions on this with the government.

Dorothy Thompson CBE
Chief Executive Officer
27 July 2015

Notes:

(1) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/437810/Renewables.pdf

(2) http://www.theenergycollective.com/robertwilson190/2157911/do-wind-farms-need-100-back

(3) https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/48337/5142-bioenergy-strategy-.pdf

(4) www.drax.com/news/news-articles/2015/06/five-stars-for-safety/

(5) www.sustainablebiomasspartnership.org/about-us/vision-objectives-strategy

Operational and financial performance

Introduction

EBITDA for the six months ended 30 June 2015 was £120 million, compared to £102 million for the six months ended 30 June 2014. In summary, this reflects good operations, with increased biomass generation protecting the business from the increasing cost of the UK carbon tax.

Generation (Drax Power)

Our results for the first half of 2015 were once again supported by good operational performance at Drax Power Station. Our two converted biomass units continue to deliver good results and are operating in line with plan.

In response to a changing environment for UK generators, the flexibility of our plant, both coal and biomass, has enabled us to extract value where it is available with good performance in the prompt and balancing power markets. Flexible plant remains critical to delivering reliable electricity in the UK and we are well-placed to provide cost-effective Grid support.

Biomass Supply (Drax Biomass)

Upstream in the biomass supply chain at Drax Biomass, our US-based pellet plant assets are making steady progress, with one plant in commercial operations and the other moving towards full commercial operations later in the summer. Our port facility is now fully operational, with two shipments departed for the UK and the pellets successfully processed at Drax Power Station.

Retail (Haven Power)

Our electricity retail business, Haven Power, provides the Group with a credit-efficient alternative route to market and continues to deliver good volume growth with sales of 6.8TWh in the six months to 30 June 2015 compared to 5.6TWh during the same period in 2014.

In March 2015 we welcomed Billington Bioenergy to the Group. As Billington Bioenergy is the second largest operator in the domestic biomass heat market, delivering over 20kt of wood pellets per annum, and a focus on sustainability and customer service, we are confident that the acquisition represents a good strategic fit with Drax. It is a natural extension to our core biomass business and gives us an important opportunity to work with the UK heat sector to ensure that the many benefits of biomass are fully understood.

Group

Drawing this together, the incremental cost of carbon continues to erode the competitiveness of our coal-fired generation capacity with an increase of over 90% in carbon price support rates from 1 April 2015. However, our biomass investments, both in the US and at Drax Power Station, are beginning to bear fruit. The significant carbon savings delivered are also having a positive impact upon our financial results.

Following strong performance during the first six months, the Board has resolved to pay an interim dividend of 5.1 pence per share (£21 million) for the six months ended 30 June 2015, compared to 4.7 pence per share (£19 million) for the six months ended 30 June 2014.

Our balance sheet at 30 June 2015 is strong, with net debt of £40 million (31 December 2014: £99 million), including cash and cash-equivalents of £262 million following cash generation of £82 million in the first half of the year.

Climate Change Levy (CCL)

The announcement in July regarding the removal of the exemption from CCL for power generated from renewable sources and associated loss of LEC revenues from 1 August 2015 was a disappointment. We estimate that this will reduce Group EBITDA by £30 million in the second half of 2015 and £60 million in 2016. Thereafter we expect the impact to reduce. As noted by the government in its announcement, the value of CCL exemptions is expected to be negligible by the early 2020s.

As described in the Chief Executive's overview, following our Group reorganisation completed on 1 March this year, we have started to identify opportunities to improve operations and profitability, as well as to optimise the use of working capital across the Group. This is important in maintaining a strong balance sheet in the light of the removal of the CCL exemption.

Generation

Generation gross profit	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Revenue			
Power sales	**1,089.7**	1,002.6	2,079.9
ROC and LEC sales	**144.8**	38.0	314.8
Ancillary services income	**6.3**	5.9	13.3
Other income	**5.3**	13.3	41.8
	1,246.1	1,059.8	2,449.8
Cost of sales			
Fuel costs in respect of generation	**(584.2)**	(481.8)	(1,224.8)
Cost of power purchases	**(390.7)**	(344.3)	(710.4)
Grid charges	**(42.8)**	(35.9)	(81.5)
	(1,017.7)	(862.0)	(2,016.7)
Gross profit	**228.4**	197.8	433.1

Our generation business, Drax Power Limited (Drax Power) is the owner and operator of Drax Power Station, the largest power station in the UK. Drax Power sells electricity through both the wholesale market and our supply company, Haven Power Limited (see Retail, below).

Financial results

Generation revenue

Total generation revenue for the six months ending 30 June 2015 was £1,246 million compared to £1,060 million for the same period in 2014.

Our generation business recognises revenue for power when it is sold into the wholesale market, or to Haven Power. Intra-group sales of power, ROCs and LECs included in the figures above totalled £364 million in the first half of 2015, compared to £316 million in the same period last year.

We can meet our power delivery obligations either by generating the power ourselves or by buying it from the market. We purchase power from the market either when it is more economical to do so, or to meet delivery obligations that cannot be covered by our own generation.

Power purchases of £391 million in the first six months of 2015 (H1 2014: £344 million) are included within cost of sales and the associated revenue within power sales. Increasing retail sales and low wholesale power prices – which result in more instances where it is economical to purchase power in the market rather than generate – have contributed to the increase in power purchases compared to the same period last year.

Excluding the cost of power purchased in the market, our power sales revenue of £699 million was higher than for the first six months of 2014 (£658 million). This reflects strong generation output, which increased 9% to 14.0TWh in the first six months of 2015 from 12.9TWh in 2014, partially offset by a small reduction in the average selling price for our power from £51.0 per MWh for the first six months of 2014 to £49.9 per MWh in 2015. Whilst wholesale market power prices have, on average, fallen over the last 18 months, the timing of our power sales hedges has provided some protection from these movements.

The flexibility of the Drax generating plant has also enabled us to capitalise on opportunities in the prompt and balancing markets to deliver additional value.

Generation revenue also includes sales of ROCs and LECs totalling £145 million for the six months ended 30 June 2015 compared to £38 million for the same period in 2014. With two converted units in operation throughout the period, biomass-fired generation accounted for 37% of our electrical output in the first half of 2015, compared to 23% for the same period last year, and we were therefore entitled to considerably more ROCs and LECs from our renewable generation.

The timing of ROC sales is driven by a combination of Renewables Obligation deadlines and commercial considerations. We have been increasingly able to utilise available agreements and improved liquidity in the ROC market to monetise ROC sales and accelerate the associated cash flows.

These trends are demonstrated in the table below:

ROC and LEC assets on the balance sheet	**Six months ended 30 June 2015**	Six months ended 30 June 2014	Year ended 31 December 2014
	£m	£m	£m
ROCs/LECs at start of period	**184.5**	139.5	139.5
ROCs/LECs generated	**250.3**	132.4	354.7
ROCs/LECs purchased	**3.8**	3.5	5.7
ROCs/LECs sold/utilised	**(144.0)**	(38.4)	(315.4)
ROCs/LECs at end of period	**294.6**	237.0	184.5
ROCs/LECs at end of period comprised of:			
ROCs	**279.0**	230.8	173.8
LECs	**15.6**	6.2	10.7

The balance at 30 June 2015 includes LECs with a book value of approximately £16 million. We expect this amount to be fully recoverable, subject to finalisation of the transitional rules related to the CCL changes.

Ancillary services and Other income include revenues from grid support activities, the sale of fuel and sale of by-products from generation (such as ash and gypsum).

Generation cost of sales

Fuel costs are the primary cost of sales for the generation business. Overall fuel costs are influenced by market prices at the time the fuel is secured – most of our fuel is purchased in advance under forward purchase contracts – and the mix of fuels burned in a given period.

As our biomass transformation has progressed, fuel costs have been increasingly influenced by the cost of biomass and the value of available renewable support, in the form of ROCs and, until now, LECs. This trend will continue with a third unit now modified to burn high levels of biomass at Drax Power Station.

The cost of burning coal has increased over recent years, with the introduction of the Carbon Price Support (CPS) mechanism in the UK from 2013 and subsequent annual increases in CPS rates. We are also subject to the cost of carbon emissions allowances under the EU Emissions Trading Scheme (EU-ETS).

Whilst biomass is a more expensive raw material than coal, the combination of CPS, emissions allowances and renewable support means that biomass is economically advantageous, a fact that underpins our transformation strategy. The scale of our biomass generation is now such that it is delivering notable carbon savings, and with it reduced expenditure on emissions allowances.

Fuel costs in respect of generation	**Six months ended 30 June 2015**	Six months ended 30 June 2014	Year ended 31 December 2014
	£m	£m	£m
Gross fuel costs (coal, biomass, oil and petcoke)	**573.9**	483.2	1,074.9
Carbon price support (CPS)	**75.1**	48.6	117.7
Carbon emissions allowances	**32.5**	44.4	76.3
Cost of ROCs/LECs sold	**144.0**	38.0	314.4
ROC/LEC support	**(241.3)**	(132.4)	(358.5)
Total fuel costs in respect of generation	**584.2**	**481.8**	**1,224.8**

As shown in the table above, fuel costs in respect of generation were £584 million during the six months ended 30 June 2015 (H1 2014: £482 million). The average cost of fuel, before the impact of carbon and ROC support, was £41.0 per MWh for the first six months of 2015, compared to £37.5 per MWh for the same period last year, reflecting the increasing influence of biomass in our fuel mix.

Biomass accounted for 37% of electrical output in the six months ended 30 June 2015 compared to 23% in the corresponding period of 2014. This increase reflects the increase in available capacity of our converted units during the first half of 2015, as only one converted unit ran throughout the same period last year, with the second modified to high biomass from May 2014.

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 £23.7 per MWh (H1 2014: £27.2 per MWh). Following the government's decision to remove the exemption from CCL for power generated from renewable sources from 1 August 2015 (as described above), we do not expect to be able to claim LECs for our biomass-fired generation after this date. As a result, the value of renewable support will fall in future periods.

Coal was the largest component of our fuel mix, representing 63% of fuel burnt (by energy content) for the first half of 2015 (H1 2014: 77%). Despite the reduction in coal as a proportion of our fuel mix, consecutive increases in CPS rates from 1 April 2014 and 2015, latterly in excess of 90%, caused our overall costs in respect of CPS to increase from £49 million in the first six months of 2014 to £75 million this year.

The government has frozen CPS at the current rate until 2020. With a third unit now modified to burn high levels of biomass, our transformation should provide further protection against these costs, whilst reducing carbon emissions.

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.

The increase in the amount of biomass burnt in the six months ended 30 June 2015 has resulted in our CO_2 emissions reducing from approximately 8.6 million tonnes (with allowances purchased at an average price of £5.2 per tonne) in 2014 to approximately 7.5 million tonnes (with allowances purchased at an average price of £4.3 per tonne) in 2015.

The overall impact of carbon (including CPS and EU-ETS emissions allowances) on cost of sales is therefore an increase of £15 million when comparing the first six months of 2015 to the same period in 2014.

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 2015, power purchases totalled £391 million compared to £344 million in the same period in 2014.

Generation cost of sales also includes grid charges of £43 million (H1 2014: £36 million) which continue to increase, driven by the impact of higher levels of intermittent generation in the UK energy mix, which drives up system balancing costs.

Generation gross margin

Increasing levels of biomass-fired generation, good bark spreads, good operations and good performance in prompt and balancing markets due to the flexibility of the Drax plant, partially offset by falling dark green spreads, have contributed to a £30 million increase in generation gross margin, from £198 million for the first six months of 2014 to £228 million for the same period this year.

Operating performance

The safety of our people and contractors is our number one priority. We have delivered another period of excellent safety performance at Drax Power Station, against a continuing backdrop of significant construction and project activity. Our financial results have once again been underpinned by strong operational performance in the six months ended 30 June 2015, reflected in electrical output of 14.0TWh, a 9% increase from 12.9TWh in the first half of 2014.

Generation - health and safety

Our safety performance at Drax Power Station remains industry-leading, with a lost time injury rate (LTIR) and total recordable injury rate (TRIR) of 0.05 and 0.1 respectively in the first six months of 2015, compared to 0.04 and 0.14 for the same period in 2014.

Generation - biomass plant

Our first two converted units have operated to plan in the first half of the year and as a result electrical output from biomass generation was 5.2TWh, an increase of 73% from 3.0TWh for the same period in 2014.

The increase reflects the modification to burn over 85% biomass in place of coal (high-biomass) and subsequent conversion of our second biomass unit, which took place in May and October in 2014 respectively.

A third unit has now undergone modification to run as a high-biomass unit. This work was completed in July 2015 and is being followed by the first major scheduled outage for the first unit we converted to run solely on biomass in April 2013. This is a routine operation, but the first of its kind at Drax Power Station.

Generation - coal plant

We have continued to realise good operating performance from our coal units which has enabled us to extract value from the prompt and balancing markets. Generation from coal-fired capacity was 8.8TWh in the first six months of 2015 compared to 9.9TWh for the same period last year, the decrease reflecting the biomass conversion activity described above.

None of our coal units are scheduled for a major outage this year.

Retail

Retail gross profit	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Revenue			
Sales of power	**627.3**	513.0	1,090.4
Sales of pellets	**1.8**	-	-
	629.1	513.0	1,090.4
Cost of sales			
Cost of power purchases	**(352.8)**	(304.6)	(629.0)
Grid charges	**(142.8)**	(116.8)	(253.1)
Other retail costs	**(125.6)**	(85.1)	(191.6)
	(621.2)	(506.5)	(1,073.7)
Gross profit	**7.9**	6.5	16.7

Our retail businesses, Haven Power and Billington Bioenergy, comprise the Retail segment. Haven Power sells electricity to business consumers predominantly situated in the industrial and commercial (I&C) and small and medium-sized enterprise (SME) sectors. Billington Bioenergy supplies wood pellets both to commercial and domestic customers.

Acquisition of Billington Bioenergy

On 4 March 2015 the Group acquired 100% of the equity of Billington Bioenergy for a total consideration of £4 million.

Billington Bioenergy distributes both loose bulk blown and bagged pellets throughout the UK, providing a platform for the Group to enter the UK domestic heat market and also strategic options for the Group's supply of sustainable wood pellets for heat and power generation.

Further details relating to the acquisition can be found in note 10 to the condensed consolidated financial statements.

The post-acquisition financial results of Billington Bioenergy (sales of £2 million and EBITDA of £nil) are included within the Retail segment and discussed in further detail below.

Strategic value of Haven Power

The strategic value of Haven Power has been in providing a credit-efficient alternative route to market for the power, ROCs and LECs generated by Drax Power.

ROCs earned by generating electricity from burning biomass can be utilised by Haven Power through its sales of power. In addition, Haven has historically supplied levy exempt power, utilising the LECs earned by burning biomass.

As described above, in July the government announced the removal of the exemption from CCL for power generated from renewable sources, resulting in the loss of LEC revenues from 1 August 2015. We are reviewing our sales and marketing strategy at Haven following these changes.

In selling power into the retail market, rather than wholesale, the Group swaps collateral risk for credit risk, which is more controllable. Haven Power actively manages credit risk by assessing the financial strength of its customers and applying rigorous credit management processes, reflected in very low bad debt experience to date.

The business has a strong focus on cash collection and working capital. This focus, combined with sales volume growth, continues to result in Haven Power being a net cash contributor to the Group.

Financial results

Retail revenue

Haven Power

Movements in key financial metrics for Haven Power are underpinned by continued good volume growth. We delivered net sales volume growth (at customer meter) of 21% in the first six months of 2015 when compared to the same period in the previous year (6.8TWh up from 5.6TWh).

As a result of this growth, revenue from sales of electricity increased to £627 million at an average price of £92.2 per MWh (H1 2014: £513 million at an average price of £91.6 per MWh).

Much of this growth has come in the larger but more competitive I&C market. Many larger I&C customers are signed up to flexible contracts where the customer decides when to fix the price of their power, or to leave it to day or month ahead prices. Although wholesale prices have been lower than in the same six-month period last year, increases in other third party costs of sales resulted in an overall increase in the average price of retail power sales.

Haven Power's business is built upon its reputation for good customer service, which has supported the sales growth and resulted in strong renewals performance in the I&C sector.

Billington Bioenergy

Sales of pellets by Billington Bioenergy were in line with expectations following the acquisition in March at 9kt. Revenues totalled £2 million, at an average price of £202 per tonne. The sales reflect the seasonal nature of the business, with significantly higher volumes expected over the winter period. Rolling 12-month sales for the business show volume growth greater than 40%.

For the segment, total revenue for the Retail business for the six months ending 30 June 2015 was £629 million, compared to £513 million for the same period in 2014.

Retail cost of sales

Haven Power

Total power purchases in Haven Power increased to £353 million, compared to £305 million in the first six months of 2014, primarily as a result of the increase in sales volumes described above. The business purchases most of its power requirement intra-group from Drax Power at market equivalent prices. Accordingly the average price paid of £51.9 per MWh in the six-months ending 30 June 2015 fell from £54.4 per MWh for the same period in 2014, reflecting changes in wholesale prices between these two periods.

Grid charges include costs of distribution, transmission and system balancing.

The rates charged by the network and system operators for transmission costs have increased; however distribution costs have decreased compared to the first six months of 2014. The increased incidence of intermittent generation (notably wind and solar) in the UK energy mix has increased system balancing costs. As a result, total grid charges in the six months ending 30 June 2015 were £143 million, compared to £117 million for the same period in 2014.

Other retail costs of sales include the cost of meeting our obligations under the Renewables Obligation, small scale feed-in-tariff schemes and the cost of LECs required to deliver renewable or levy exempt power to our customers.

In April 2015 the costs of the Renewables Obligation increased from £10.6 per MWh to £12.9 per MWh sold, an increase of over 20%. Compared to the previous year, first-quarter small-scale feed-in-tariff costs increased by 44%. LEC costs continued to rise in line with sales volume.

Total third party costs (grid charges and other retail costs of sales), at £268 million, represented 43% of the overall costs of retail power supply in the first six months of 2015 (H1 2014: £202 million, 40% of the total costs of retail power supply).

Billington Bioenergy

Cost of sales in Billington Bioenergy primarily represent the cost of pellets purchased and are included in Other retail costs in the table above. In the six months ended 30 June 2015, such costs were £1 million, at an average price of £161 per tonne.

Total cost of sales for the Retail segment in the six-months ending 30 June 2015 were therefore £621 million, compared to £507 million the same period in 2014.

Retail gross margin

The markets in which Haven Power operates continue to be very competitive. It is such challenging trading conditions that ultimately drive the gross margin performance of the Retail business.

During the period under review, volume growth has resulted in increased gross margin; however the significant increase in third party costs led to pressure on margins from fixed price sales.

Billington Bioenergy will continue to make modest contributions to the gross margin of the Retail segment whilst our growth plans for the business are executed.

The Retail gross margin for the six-months ending 30 June 2015 was £8 million, compared to £7 million for the same period in 2014.

Biomass Supply

Our biomass supply business, Drax Biomass, manufactures wood pellets which can be used to generate renewable low-carbon power from sustainable biomass. Drax Biomass sells its pellets intra-group to Drax Power (see Generation, above).

Financial results

Biomass Supply gross margin
Revenues within Drax Biomass are entirely intra-group and reflect pellets shipped to Drax Power in the UK. The first shipment of pellets to Drax Power Station took place during the period. Sales of pellets in the six months ended 30 June 2015 totalled £6.1 million. All intra-group sales of pellets are made on arms-length commercial terms.

Raw fibre costs make up the majority of the costs of sale of the Biomass Supply business. Such costs have been higher than expected as we progress through the start-up and commissioning phase, but are forecast to fall as fully optimised operations are delivered.

As a result of the above factors, the gross margin for the Biomass Supply business was £1.6 million negative in the six months ended 30 June 2015.

Operating performance

The port facility at Baton Rouge, Louisiana is now complete and fully operational. Large shipments have been successfully loaded and dispatched to the UK.

Our two pellet plant facilities, in Amite, Mississippi and Morehouse, Louisiana, are making steady progress. The plant at Morehouse is now fully commissioned with the plant at Amite operational and moving towards full commercial operations later in the summer.

Biomass Supply health and safety
We continue to work hard in the US to bring health and safety performance into line with our performance in the UK and progress has been positive during the first half. Significant project work has continued during the commissioning phase with an LTIR and TRIR of 0.00 and 0.71 respectively.

Group summary financial performance

Group results	Six months ended 30 June 2015 £m	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
Generation gross profit	**228.4**	197.8	433.1
Retail gross profit	**7.9**	6.5	16.7
Biomass supply gross loss	**(1.6)**	-	-
Adjustments for intra-group trading	**(0.5)**	-	-
Consolidated gross profit	**234.2**	204.3	449.8
Operating and administrative expenses	**(114.3)**	(102.4)	(220.4)
EBITDA	**119.9**	101.9	229.4
CESP settlement	**-**	-	(20.0)
Depreciation	**(49.8)**	(41.5)	(80.7)
Unrealised (losses)/gains on derivative contracts	**(3.0)**	(55.9)	65.8
Operating profit	**67.1**	4.5	194.5
Net finance costs	**(14.1)**	(15.3)	(28.6)
Profit/(loss) before tax	**53.0**	(10.8)	165.9
Tax (charge)/credit	**(14.2)**	4.1	(37.2)
Profit/(loss) after tax	**38.8**	(6.7)	128.7
Underlying profit after tax *	**41.2**	38.0	96.0

	Pence per share	Pence per share	Pence per share
Basic earnings/(losses) per share	**10**	(2)	32
Underlying earnings per share	**10**	9	24

* Underlying profit after tax excludes the after-tax effect of unrealised gains and losses on derivative contracts and the one-off settlement of CESP in the year-ended 31 December 2014. A full reconciliation of the tax effect is provided in note 6 to the condensed consolidated financial statements.

Consolidated gross profit

After adjusting for profits on intra-group trading (see note 2 to the condensed consolidated financial statements) Group consolidated gross profit for the six months ending 30 June 2015 was £234 million, compared to £204 million for the same period in 2014.

This principally reflects strong operating performance in the Generation business, as described above.

Group operating and administrative expenses

Group operating and administrative expenses before depreciation were £114 million for the six months ended 30 June 2015 compared to £102 million in 2014, principally reflecting higher operating costs in the Biomass Supply business as plant commissioning proceeded and the timing of non-outage maintenance costs in the Generation business.

We continue to control closely our underlying cost base.

Group EBITDA
Group EBITDA is a function of the factors influencing the gross margin and operating expenses described above.

Therefore, Group EBITDA for the first six months of 2015 was £120 million, an increase of 18% from £102 million for the same period in 2014.

Further segmental information is provided in note 3 to the condensed consolidated financial statements.

Depreciation
Depreciation and amortisation was £50 million for the six months ended 30 June 2015 and £42 million for the six months ended 30 June 2014.

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 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.

Full details of our trading strategy and the accounting applied to financial instruments, such as commodity contracts and forward currency contracts, are described in the Group's 2014 Annual Report and Accounts on pages 39-40.

Unrealised losses on derivative contracts recognised through the income statement for the first six months ended 30 June 2015 were £3 million, compared to unrealised losses of £56 million in the first half of 2014. The movement in both periods was driven largely by the change in value of our forward currency contracts, which reflects the strengthening of Sterling against foreign currencies, principally the US dollar.

As much of our fuel is now purchased in foreign currencies and under long-term contracts, relatively small changes in market exchange rates can result in significant volatility in this line.

Interest
Net finance costs for the six months ended 30 June 2015, at £14 million, were broadly in line with £15 million for the same period in 2014.

More information regarding our funding structure is included within Liquidity and capital resources, below.

Profit/loss before tax
Profit before tax for the six months ended 30 June 2015 was £53 million compared to a loss of £11 million in the prior period.

The increase reflects the £30 million increase in gross margin and resulting positive EBITDA described above and a reduction in unrealised losses on derivative contracts, offset to some extent by increased depreciation charges.

Underlying profit before tax, which excludes the effect of unrealised gains and losses on derivative contracts, amounted to £56 million for the six months ended 30 June 2015 compared to £45 million in 2014.

Tax

Tax reconciliation for the six months ended 30 June 2015	Statutory		Underlying	
	£m	%	**£m**	%
Profit before tax	**53.0**		**56.0**	
Tax at 20.25%	**10.7**	20.3	**11.3**	20.3
Reconciling items:				
US start-up costs	**2.1**	4.0	**2.1**	3.8
Other	**1.4**	2.6	**1.4**	2.5
Total tax	**14.2**	26.8	**14.8**	26.4

The tax charge on the profit before tax for the six months ended 30 June 2015 was £14 million (H1 2014: credit of £4 million).

The tax charge arising on underlying profit before tax (excluding the after tax impact of unrealised gains and losses on derivatives contracts) for the six months, of £15 million, reflects an average effective tax rate applicable for the period of 26%. This charge is higher than the standard rate of tax in the UK of 20.25%, as the tax value of the start-up costs of the Biomass Supply business is not recognised in the tax charge until final commissioning of the US pellet plants is complete.

The comparative period reflected an effective tax rate on underlying profit of 16%, which was lower than the standard rate of tax in the UK of 21.5%, due to a small adjustment for prior year taxes.

In the Summer Budget 2015, the government proposed a reduction in the rate of corporation tax from 20% to 19% from 1 April 2017, and a further rate reduction to 18% from 1 April 2020. These reductions have not been recognised in the condensed consolidated financial statements as they had not been substantively enacted at the balance sheet date. Once legislated, this will give rise to tax credits as we revalue our net deferred tax liability.

As a result, it is likely that our underlying effective tax rate for the full year will be well below the standard rate of tax in the UK. In future years we would expect our underlying tax rates to be closer to the standard UK corporate tax rate.

Profit/loss after tax and earnings per share

Profit after tax for the six months ended 30 June 2015 was £39 million, compared to a loss of £7 million for the same period in 2014, resulting in basic earnings per share of 10 pence in 2015 compared to a loss per share of 2 pence in 2014.

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 2015 was £41 million, compared to £38 million for the same period in 2014, resulting in underlying earnings per share in 2015 of 10 pence per share, compared to 9 pence in 2014.

Liquidity and capital resources

Analysis of cash flows	**Six months ended 30 June 2015 £m**	Six months ended 30 June 2014 £m	Year ended 31 December 2014 £m
EBITDA	**119.9**	101.9	229.4
Increase in ROC assets	**(110.0)**	(97.5)	(45.0)
Decrease in carbon assets	**-**	26.5	26.5
Decrease/(increase) in working capital	**188.0**	34.2	(83.9)
Other	**1.0**	(1.3)	0.3
Cash generated from operations	**198.9**	63.8	127.3
Income taxes paid	**(2.4)**	(7.2)	(14.2)
Other (losses)/gains	**(19.6)**	4.3	(0.4)
Net interest paid	**(10.8)**	(12.3)	(23.0)
Net cash from operating activities	**166.1**	48.6	89.7
Cash flows from investing activities			
Purchases of property, plant and equipment	**(72.8)**	(120.3)	(200.1)
Acquisition of subsidiary	**(4.0)**	-	-
Short-term investments	**20.1**	-	(20.1)
Net cash used in investing activities	**(56.7)**	(120.3)	(220.2)
Cash flows from financing activities			
Equity dividends paid	**(29.2)**	(36.0)	(55.0)
Proceeds from issue of share capital	**1.5**	0.3	0.6
Repayment of borrowings	**-**	(0.1)	(0.3)
New borrowings	**-**	100.0	100.0
Other financing costs paid	**(0.2)**	(0.6)	(1.2)
Net cash (used in)/from financing activities	**(27.9)**	63.6	44.1
Net increase/(decrease) in cash and cash equivalents	**81.5**	(8.1)	(86.4)
Cash at 1 January	**180.9**	267.3	267.3
Cash at end of period	**262.4**	259.2	180.9
Short-term investments at end of period	**20.0**	20.0	40.1
Borrowings at end of period	**(322.3)**	(316.9)	(319.6)
Net debt at end of period	**(39.9)**	(37.7)	(98.6)

Cash generated from operations

Cash generated from operations was £199 million in the six months ended 30 June 2015 compared to £64 million in 2014. This cash movement reflects an £18 million increase in EBITDA, combined with a substantial inflow from working capital. In Drax Power, coal stocks have been actively reduced both as a consequence of biomass conversion activity and as part of our plan to meet the requirements of the EU's Industrial Emissions Directive from the start of 2016.

Offsetting these inflows, we continued to generate substantially more ROCs and LECs as our proportion of biomass generation increases. ROCs and LECs earned from renewable generation can drive significant working capital absorption, with the cash received typically up to 12 months after burning the associated biomass. We have access to ROC monetisation agreements with a total value of £200 million, secured with HSBC and Lloyds, which enhance our capability to accelerate ROC cash flows by selling ROC receivables. We continue to explore ways to minimise the working capital impact of ROCs.

Net cash flows from operating activities
Other gains/losses includes the net £20 million paid in settlement of our obligations under CESP, as described on page 39 of the 2014 Annual Report and Accounts.

Cash taxes paid in the six months ended 30 June 2015 were £2 million (H1 2014: £7 million), with the reduction from the same period in 2014 reflecting the utilisation of increased capital allowances arising from our investment in biomass infrastructure.

Net cash used in investing activities
Cash paid in relation to purchases of property, plant and equipment of £73 million in the six months ended 2015 (H1 2014: £120 million) was higher than fixed asset additions in the period, reflecting the timing of cash payments for assets acquired in the previous year. The level of expenditure continued to reflect the significant amount of investment across the business as we progress our biomass transformation. However, as we approach the completion of our project to convert three units to run on biomass, the overall level of capital expenditure is expected to fall.

Short-term investments are cash deposits with a maturity of three months or greater at inception. In the six months ended 30 June 2015, £20 million of such deposits matured.

Net cash flows from financing activities
Equity dividends paid during the period amounted to £29 million (H1 2014: £36 million).

Net debt
The increase of £82 million in cash and cash equivalents in the six months ended 30 June 2015, compared to a decrease of £8 million in 2014, was driven by reductions in working capital and capital expenditure. As such, net debt (after deduction of borrowings and allowing for short-term investments) is £40 million compared to £99 million at the end of 2014.

Financing and cash flow management
Our Group financing structure consists of a private placement for £100 million with various funds managed by M&G Investments agreed last year, a £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, 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 2017.

All of the term loans in our funding structure, totalling £325 million, were fully drawn down at 30 June 2014, 31 December 2014 and 30 June 2015. Utilisation of the working capital and letter of credit facility at 30 June 2015 was £49 million (H1 2014: £63 million), relating entirely to letters of credit,

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.

Capital expenditure
Fixed asset additions were £54 million in the six months ended 30 June 2015 (H1 2014 £123 million).

As noted above, capital expenditure has reduced from the previous period as we approach the end of our project to convert three units to biomass at Drax Power Station and construct the supporting US pellet supply facilities. Total capital expenditure on the project to date, including two converted units, the supporting on-site infrastructure, rail wagons and our US port facility and pellet plants amounts to approximately £580 million.

We expect to spend a further £100 million over the period to 2017 concluding this project, including full conversion of a third unit, and ensuring compliance with the requirements of the EU's Industrial Emissions Directive (IED). The project continues to be in line with our original cost guidance of £650 million - £700 million.

Our lead case investment for IED compliance remains unchanged, incorporating the implementation of low nitrogen oxide burners and selective-non-catalytic-reduction technology across all units.

Other information

Post balance sheet event
On 8 July 2015 the UK Government announced the removal of the Climate Change Levy (CCL) exemption for renewably sourced electricity from 1 August 2015. As a result of this change we will no longer earn Levy Exemption Certificates (LECs) by generating electricity from biomass from this date.

We expect a material reduction in full-year EBITDA of approximately £30 million in 2015, and £60 million in 2016 as a result of this change. Beyond this horizon the impact should reduce progressively until it becomes negligible in the early 2020s.

There is a transitional period commencing on 1 August 2015 during which the CCL exemption can be claimed for renewable power generated before this date. The length of the transitional period is to be announced following a consultation with affected stakeholders. We expect this period to be sufficient to realise all of the LECs we will generate before 1 August 2015 and, as a result, the value of our existing LECs on the balance sheet at 30 June 2015 (£16 million) is not affected by this change.

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 as set out in our 2014 Annual Report and Accounts (pages 46 - 49). Our cash flows and borrowing facilities are described above. In addition, notes 20 to 22 to the consolidated financial statements contained within the 2014 Annual Report and Accounts explain our approach to capital risk management and give details of financial instruments and hedging activities, and exposure to credit, counterparty and liquidity risk.

We presently 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 progressive hedging strategy. Our business plan takes account of our capital investment plans and reasonably possible changes in trading performance, including sensitivity analysis on downside scenarios.

Recently announced changes to the support regime for renewable power in the UK (above) have resulted in a reduction of approximately £90 million in our expected revenues, cash flow and EBITDA over the period to 31 December 2016. We have revised our plans and projections to take account of the impact of these changes and have assessed the nature and extent of actions required to ensure that the viability of the Group is not at risk for the foreseeable future. We have also considered reasonably possible further downside scenarios.

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

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 prepare the financial statements on a going concern basis.

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.

Future developments

We remain committed to our strategy to convert three units to run solely on biomass with the funding platform in place to achieve this. Our capital expenditure projects to deliver and support this ambition remain on budget and we are well set to deliver a stronger business.

Two of our remaining coal units were successful in the first capacity market auction in December 2014, with the first capacity payments expected to commence in 2018.

Positions under contract

As at 20 July 2015, the positions under contract for the sale of power for 2015 and 2016:	2015	2016
Power sales (TWh) comprising:	24.7	13.5
– Fixed price power sales (TWh) at an average achieved price (per MWh)	23.6 @ 49.8	11.8 @ 48.5
– Fixed margin and structured power sales (TWh)	1.1	1.7

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 2015 were £41 million (H1 2014: £38 million).

Dividends paid

On 17 February 2015, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 22 April 2015, to pay a final dividend for the year ended 31 December 2014 of 7.2 pence per share (£29 million). The final dividend was subsequently paid on 15 May 2015.

Dividends proposed

On 27 July 2015, the Board resolved to pay an interim dividend for the six months ended 30 June 2015 of 5.1 pence per share (£21 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 9 October 2015 and shares will be marked ex-interim dividend on 24 September 2015.

Principal risks and uncertainties

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board. We set out in our 2014 Annual report and accounts (pages 46 - 49) the principal risks and uncertainties that could impact performance. 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

Our progressive hedging strategy, which includes forward power and ROC sales combined with corresponding purchases of fuel and CO_2 emissions allowances, provides some protection against continued weak commodity markets. We also keep the operating cost base of the Group under constant review, making adjustments when appropriate, and take opportunities to optimise value from our trading activities as they arise.

We continue to promote the benefits of biomass and are engaged with government at both UK and EU level to ensure the Group's views and positions on current and forthcoming legislation and regulations, and on energy and environmental policy issues that may have implications for our business, are represented.

Related parties

The Group set out in its 2014 Annual Report and Accounts (page 140) the related party transactions arising which were in relation to remuneration of management personnel and transactions with Capture Power Limited, a joint venture in which the Group is a venturer. There have been no new related party transactions, other than the remuneration of key management personnel and transactions with Capture Power Limited, since 31 December 2014.

This Operational and financial performance review was approved by the Board on 27 July 2015.

Michael Scott
Interim Finance Director
27 July 2015

Directors' responsibility statement

We confirm that to the best of our knowledge:

(a) the condensed set of financial statements has been prepared in accordance with IAS 34 "Interim Financial Reporting";

(b) the interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first six months and description of principal risks and uncertainties for the remaining six months of the year); and

(c) the interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

By order of the Board

Dorothy Thompson	**Michael Scott**
Chief Executive	Interim Finance Director
27 July 2015	27 July 2015

Condensed consolidated income statement

	Notes	Six months ended 30 June 2015 (Unaudited) £m	Six months ended 30 June 2014 (Unaudited) £m	Year ended 31 December 2014 (Audited) £m
Revenue		**1,511.2**	1,256.5	2,805.0
Fuel costs in respect of generation		**(579.0)**	(481.8)	(1,224.8)
Cost of power purchases		**(395.9)**	(349.7)	(715.4)
Grid charges		**(184.1)**	(152.7)	(334.6)
Other retail costs		**(118.0)**	(68.0)	(80.4)
Total cost of sales		**(1,277.0)**	(1,052.2)	(2,355.2)
Gross profit		**234.2**	204.3	449.8
Other operating and administrative expenses		**(114.3)**	(102.4)	(220.4)
EBITDA(1)		**119.9**	101.9	229.4
CESP settlement		**-**	-	(20.0)
Depreciation and amortisation		**(49.8)**	(41.5)	(80.7)
Unrealised (losses)/gains on derivative contracts		**(3.0)**	(55.9)	65.8
Operating profit		**67.1**	4.5	194.5
Interest payable and similar charges		**(14.5)**	(15.8)	(29.9)
Interest receivable		**0.4**	0.5	1.3
Profit/(loss) before tax		**53.0**	(10.8)	165.9
Tax (charge)/credit	4	**(14.2)**	4.1	(37.2)
Profit/(loss) for the period attributable to equity holders		**38.8**	(6.7)	128.7

Earnings/(loss) per share (3)		**pence**	pence	pence
– Basic	6	**10**	(2)	32
– Diluted	6	**10**	(2)	32

		£m	£m	£m
Underlying profit for the period (2)	6	**41.2**	38.0	96.0

		pence	pence	pence
Underlying earnings per share (3)	6	**10**	9	24

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 and CESP settlement.

(2) Underlying profit for the period is calculated as the profit or loss attributable to equity holders excluding the after-tax effect of unrealised gains or losses on derivative contracts and the one-off settlement of CESP in the year ended 31 December 2014. A full reconciliation of the profit or loss for the period to underlying profit is provided in note 6 to the condensed consolidated financial statements.

(3) Earnings per share is based upon the profit or loss for the period attributable to equity holders. Underlying earnings per share is based upon the underlying profit for the period.

Condensed consolidated statement of comprehensive income

	Six months ended 30 June		Year ended 31 December
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Profit/(loss) for the period	**38.8**	(6.7)	128.7
Items that will not be reclassified subsequently to profit or loss:			
Actuarial (losses)/gains on defined benefit pension scheme	**(0.3)**	(8.6)	3.4
Deferred tax on actuarial (losses)/gains on defined benefit pension scheme	**0.1**	1.7	(0.7)
Items that may be subsequently reclassified to profit or loss:			
Exchange differences on translation of foreign operations	**0.6**	4.4	(0.2)
Fair value (losses)/gains on cash flow hedges	**(52.9)**	73.5	100.4
Deferred tax on cash flow hedges	**10.6**	(14.7)	(20.1)
Other comprehensive (expense)/income for the period	**(41.9)**	56.3	82.8
Total comprehensive (expense)/income for the period attributable to equity holders	**(3.1)**	49.6	211.5

Condensed consolidated balance sheet

	Notes	As at 30 June 2015 (Unaudited) £m	As at 30 June 2014 (Unaudited) £m	As at 31 December 2014 (Audited) £m
Assets				
Non-current assets				
Goodwill and other intangible assets	10	**14.5**	10.7	10.7
Property, plant and equipment		**1,694.4**	1,662.7	1,697.2
Derivative financial instruments		**94.8**	10.3	111.2
		1,803.7	1,683.7	1,819.1
Current assets				
Inventories		**185.4**	225.4	242.4
ROC and LEC assets		**294.5**	237.0	184.5
Trade and other receivables		**285.4**	222.1	368.7
Derivative financial instruments		**156.5**	128.6	139.1
Short-term investments		**20.0**	20.0	40.1
Cash and cash equivalents		**262.4**	259.2	180.9
		1,204.2	1,092.3	1,155.7
Liabilities				
Current liabilities				
Trade and other payables		**469.2**	407.0	468.3
Current tax liabilities		**4.2**	6.8	1.4
Borrowings		**0.6**	0.1	0.6
Derivative financial instruments		**169.5**	90.1	130.7
		643.5	504.0	601.0
Net current assets		**560.7**	588.3	554.7
Non-current liabilities				
Borrowings		**321.7**	316.8	319.0
Derivative financial instruments		**250.2**	310.1	232.2
Provisions		**30.1**	33.0	29.8
Deferred tax liabilities		**184.5**	138.4	185.9
Retirement benefit obligations		**32.6**	47.0	34.3
		819.1	845.3	801.2
Net assets		**1,545.3**	1,426.7	1,572.6
Shareholders' equity				
Issued equity		**46.9**	46.5	46.8
Capital redemption reserve		**1.5**	1.5	1.5
Share premium		**424.2**	422.8	422.8
Merger reserve		**710.8**	710.8	710.8
Hedge reserve	9	**(25.9)**	(5.1)	16.4
Retained profits		**387.8**	250.2	374.3
Total shareholders' equity		**1,545.3**	1,426.7	1,572.6

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 2014	**46.5**	**1.5**	**422.5**	**710.8**	**(63.9)**	**292.5**	**1,409.9**
Profit for the year	-	-	-	-	-	128.7	128.7
Other comprehensive income	-	-	-	-	80.3	2.5	82.8
Total comprehensive income for the year	-	-	-	-	80.3	131.2	211.5
Equity dividends paid	-	-	-	-	-	(55.0)	(55.0)
Issue of share capital	0.3	-	0.3	-	-	-	0.6
Movement in equity associated with share-based payments	-	-	-	-	-	5.6	5.6
At 31 December 2014	**46.8**	**1.5**	**422.8**	**710.8**	**16.4**	**374.3**	**1,572.6**
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**
At 1 January 2015	**46.8**	**1.5**	**422.8**	**710.8**	**16.4**	**374.3**	**1,572.6**
Profit for the period	-	-	-	-	-	38.8	38.8
Other comprehensive (expense)/income	-	-	-	-	(42.3)	0.4	(41.9)
Total comprehensive (expense)/income for the period	-	-	-	-	(42.3)	39.2	(3.1)
Equity dividends paid	-	-	-	-	-	(29.2)	(29.2)
Issue of share capital	0.1	-	1.4	-	-	-	1.5
Movement in equity associated with share-based payments	-	-	-	-	-	3.5	3.5
At 30 June 2015	**46.9**	**1.5**	**424.2**	**710.8**	**(25.9)**	**387.8**	**1,545.3**

Condensed consolidated cash flow statement

	Notes	Six months ended 30 June 2015 (Unaudited) £m	Six months ended 30 June 2014 (Unaudited) £m	Year ended 31 December 2014 (Audited) £m
Cash generated from operations	11	**198.9**	63.8	127.3
Income taxes paid		**(2.4)**	(7.2)	(14.2)
Other (losses)/gains [(1)]		**(19.6)**	4.3	(0.4)
Interest paid		**(11.5)**	(12.4)	(23.2)
Interest received		**0.7**	0.1	0.2
Net cash from operating activities		**166.1**	48.6	89.7
Cash flows from investing activities				
Purchases of property, plant and equipment		**(72.8)**	(120.3)	(200.1)
Acquisition of subsidiary		**(4.0)**	-	-
Short-term investments	12	**20.1**	-	(20.1)
Net cash used in investing activities		**(56.7)**	(120.3)	(220.2)
Cash flows from financing activities				
Equity dividends paid	5	**(29.2)**	(36.0)	(55.0)
Proceeds from issue of share capital		**1.5**	0.3	0.6
Repayment of borrowings		**-**	(0.1)	(0.3)
New borrowings		**-**	100.0	100.0
Other financing costs paid		**(0.2)**	(0.6)	(1.2)
Net cash (used in)/generated from financing activities		**(27.9)**	63.6	44.1
Net increase/(decrease) in cash and cash equivalents	12	**81.5**	(8.1)	(86.4)
Cash and cash equivalents at beginning of the period		**180.9**	267.3	267.3
Cash and cash equivalents at end of the period		**262.4**	259.2	180.9

(1) Other (losses)/gains in the six months ended 30 June 2015 includes the net £20 million payment made in settlement of the Group's obligations under CESP, as described on page 39 of the 2014 Annual Report and Accounts.

Notes to the condensed consolidated financial statements

1. General information

These notes provide additional detail on the disclosures within the condensed consolidated financial statements. Further information, and a full set of explanations, can be found in our 2014 Annual Report and Accounts on pages 105 – 140. 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") predominantly 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 followed 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") as adopted by the EU and in accordance with IAS 34 "Interim Financial Reporting". The information provided in respect of year ended 31 December 2014 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 have been prepared on the going concern basis, as explained in Operational and financial performance, and on the historical cost basis, except for certain assets and liabilities that have been measured at fair value (principally derivative financial instruments – see note 7).

The condensed consolidated financial statements were approved by the Board on 27 July 2015.

Presentation of segmental reporting

In our preliminary results for the year ended 31 December 2014, we announced a change in our organisational structure, effective from 1 March 2015, to reflect the three business units that form our Group. At the same time, the management reporting used by the Group's chief operating decision maker, considered to be the Board, was amended to provide financial information across these three business units.

Accordingly, the segmental reporting provided both in note 3 to these condensed consolidated financial statements and in the narrative reporting in Operational and financial performance is now based on these three business units. The Biomass Supply segment, which is wholly comprised of our US biomass manufacturing operation, was previously reported as part of the Generation segment.

Operating costs are allocated to segments to the extent they are directly attributable to the activities of that segment. Unallocated costs are included within central operating costs.

Prior period comparatives have been restated to the extent the information is available. Costs were entirely allocated to business units in previous periods.

Intra-group trading

Intra-group transactions are carried out on arms-length, commercial terms that where possible equate to market prices at the time of the transaction. During the period, Drax Biomass Inc. (Biomass Supply) sold wood pellets with a total value of £6.1 million to Drax Power Limited (Generation) and Drax Power Limited sold power, ROCs and LECs with a total value of £364.1 million to Haven Power Limited (Retail). In addition, within the Generation segment, Drax Fuel Supply Limited sold coal to Drax Power Limited.

The impact of all intra-group transactions, including any unrealised profit arising (£0.5 million at 30 June 2015), is eliminated on consolidation.

Adoption of new and revised accounting standards
In 2014, a number of new standards and interpretations became effective as noted in the 2014 Annual Report and Accounts (page 107). The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group.

Since the 2014 Annual Report and Accounts were published one new standard (Annual improvements to IFRS 2011-2013 cycle) became effective during the first 6 months of 2015. The adoption of this standard has not had a material impact on the financial statements of the Group.

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 consolidated financial statements for the year ended 31 December 2014.

3. Segmental reporting

On 1 March 2015, reflecting the evolution and growth of the Group, the Group reorganised into three business units with a dedicated management team for each; the generation of electricity at Drax Power Station (Generation), production of sustainable wood pellets at our processing facilities in the US (Biomass Supply) and the supply of power to business customers and wood pellets to the domestic heat market (Retail). Each of these business units is considered to be an operating segment for the purpose of segmental reporting.

Following the reorganisation, information reported to the Board for the purposes of assessing performance and making investment decisions is organised into these three operating segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is 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 2015:

	Six months ended 30 June 2015 (Unaudited)				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments* £m	Consolidated £m
Revenue					
External sales	**882.1**	**629.1**	**-**	**-**	**1,511.2**
Inter-segment sales	**364.1**	**-**	**6.1**	**(370.2)**	**-**
Total revenue	**1,246.2**	**629.1**	**6.1**	**(370.2)**	**1,511.2**
Segment gross profit	**228.4**	**7.9**	**(1.6)**	**(0.5)**	**234.2**
Segment EBITDA	**148.6**	**(4.0)**	**(9.0)**		**135.6**
Central operating costs					**(15.7)**
Consolidated EBITDA					**119.9**
Depreciation and amortisation					**(49.8)**
Unrealised losses on derivative contracts					**(3.0)**
Operating profit					**67.1**
Net finance costs					**(14.1)**
Profit before tax					**53.0**

* Adjustments represent the elimination of intra-group transactions.

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

	Six months ended 30 June 2014 (Unaudited)				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments £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
Segment gross profit	197.8	6.5	-	-	204.3
Segment EBITDA	109.5	(4.2)	(3.4)	-	101.9
Depreciation and amortisation					(41.5)
Unrealised gains 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 (restated) by reporting segment in the year ended 31 December 2014:

	Year ended 31 December 2014 (Audited)				
	Generation £m	Retail £m	Biomass Supply £m	Adjustments £m	Consolidated £m
Revenue					
External sales	1,714.6	1,090.4	-	-	2,805.0
Inter-segment sales	735.2	-	-	(735.2)	-
Total revenue	2,449.8	1,090.4	-	(735.2)	2,805.0
Segment gross profit	434.1	16.7	(1.0)	-	449.8
Segment EBITDA	244.8	(5.5)	(9.9)	-	229.4
CESP settlement					(20.0)
Depreciation and amortisation					(80.7)
Unrealised losses on derivative contracts					65.8
Operating profit					194.5
Net finance costs					(28.6)
Profit before tax					165.9

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

Interest, tax, assets and working capital are monitored on a Group basis with no separate disclosure by segment made in the management accounts, and hence no separate asset disclosure is provided in this report. However, spend on key capital projects is monitored. Total spend on the biomass transformation project during the first 6 months of 2015 was £28 million (H1 2014: £87 million), of which £11 million related to construction of assets within our US business.

Major customers

Total revenue for the six months ended 30 June 2015 includes amounts of £221.5 million and £173.8 million derived from two customers, each representing 10% or more of the Group's revenue for the period (H1 2014: no major customers representing 10% or more of the Group's revenue).

4. Taxation

The tax charge reflects an estimate of the corporation tax payable/(receivable) as a result of our activities during the period, including both current and deferred tax. Current tax is the amount payable on taxable profits (profit before tax 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) in the period. 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.

In the Summer Budget 2015, the government proposed a reduction in the rate of corporation tax from 20% to 19% from 1 April 2017 and a further rate reduction to 18% from 1 April 2020. These reductions have not been recognised in the condensed consolidated financial statements as they had not been substantively enacted at the balance sheet date. Once legislated, this will give rise to tax credits as we revalue our net deferred tax liability.

	Six months ended 30 June		Year ended 31 December
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Tax charge/(credit) comprises:			
Current tax	**4.9**	4.2	5.9
Deferred tax:	**9.3**	(8.3)	31.3
Tax charge/(credit)	**14.2**	(4.1)	37.2

Deferred tax assets are recognised to the extent that the realisation of the related tax benefit through future associated taxable profits is probable. The Group has not recognised deferred tax assets with an estimated value of £13 million at 30 June 2015 (2014: £10 million) in respect of UK and US losses and other temporary differences that are carried forward to offset against future taxable income.

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	**2015 (Unaudited) £m**	2014 (Unaudited) £m	2014 (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 2014 paid 15 May 2015	**7.2**	**29.2**	-	-
Interim dividend for the year ended 31 December 2014 paid 10 October 2014	4.7	**-**	-	19.0
Final dividend for the year ended 31 December 2013 paid 14 May 2014	8.9	**-**	36.0	36.0
		29.2	36.0	55.0

On 27 July 2015, the Board resolved to pay an interim dividend for the six months ended 30 June 2015 of 5.1 pence per share (equivalent to approximately £21 million) on or before 9 October 2015. The interim dividend has not been included as a liability as at 30 June 2015.

6. Earnings per share

Earnings/(loss) per share ("EPS") represents the amount of our earnings (post-tax profits) attributable to each ordinary share or dilutive potential 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 and any one-off items (such as the CESP settlement in 2014) 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
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Earnings:			
Earnings/(losses) attributable to equity holders of the Company for the purposes of basic and diluted earnings	**38.8**	(6.7)	128.7
Impact of unrealised gains and losses on derivative contracts	**3.0**	55.9	(65.8)
CESP settlement	**-**	-	20.0
Tax impact of the above adjustments	**(0.6)**	(11.2)	13.1
Underlying earnings attributable to equity holders of the Company	**41.2**	38.0	96.0

	Six months ended 30 June		Year ended 31 December
	2015 (Unaudited)	2014 (Unaudited)	2014 (Audited)
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	**405.6**	403.9	404.4
Effect of dilutive potential ordinary shares under share plans	**1.9**	2.7	2.9
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	**407.5**	406.6	407.3

Earnings/(loss) per share – basic (pence)	**10**	(2)	32
Earnings/(loss) per share – diluted (pence)	**10**	(2)	32
Underlying earnings per share – basic (pence)	**10**	9	24
Underlying earnings per share – diluted (pence)	**10**	9	24

7. Derivative financial instruments

The accounting rules for derivative contracts are complex. Where such contracts do not qualify for the own use exemption (described on page 121 in our 2014 Annual report and accounts) we account for them at fair value, which is in essence the difference between the price we have secured in the contract and the price we could achieve in the market at the balance sheet date. The tables and commentary below provide additional information about how these valuations are determined 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
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Assets			
Commodity contracts	**180.9**	126.8	186.1
Financial contracts	**70.4**	12.1	64.2
	251.3	138.9	250.3
Liabilities			
Commodity contracts	**(138.0)**	(29.9)	(197.4)
Financial contracts	**(281.6)**	(370.3)	(165.5)
	(419.6)	(400.2)	(362.9)

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.

As described in our latest Annual Report and Accounts on page 123, the fair value of commodity contracts and financial contracts is largely determined by comparison between forward market prices and the contract price. These contracts have therefore 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 deteriorated slightly in the first half of 2015. As described in Operational and financial performance, currency exchange rates are the key driver behind our derivative position. Sterling strengthened against each of our primary foreign currencies during the period, resulting in unrealised losses being recognised on the balance sheet.

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

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 within the hedge reserve, a component of shareholder's equity. The cumulative gains and losses unwind and are released to the income statement 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 commodity contracts, this is when the underlying commodity is delivered. For financial contracts this is when the associated foreign currency transaction is recognised.

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

	As at 30 June 2015 (Unaudited)			
	Within 1 year £m	**1–2 years £m**	**>2 years £m**	**Total £m**
Commodity contracts	**19.1**	**0.6**	**(1.6)**	**18.1**
Financial contracts	**(8.1)**	**2.6**	**(38.5)**	**(44.0)**
	11.0	**3.2**	**(40.1)**	**(25.9)**

	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 31 December 2014 (Audited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	39.3	(0.2)	(2.1)	37.0
Financial contracts	(3.3)	1.8	(19.1)	(20.6)
	36.0	1.6	(21.2)	16.4

10. Acquisition of subsidiary

On 4 March 2015, the Group acquired 100% of the issued share capital of Billington Bioenergy Limited (Billington Bioenergy), obtaining control of the company. Billington Bioenergy is a wood pellet distributor in the UK renewable fuelled heating market. It gives us an important opportunity to work with the UK heat sector to ensure that the many benefits of biomass are fully understood. We hope to drive substantial growth in this market over the coming years.

The provisional amounts recognised in respect of the identifiable assets acquired and liabilities assumed are as set out in the table below:

	£m
Financial assets	0.6
Inventory	0.3
Property, plant and equipment	0.9
Financial liabilities	(1.6)
Total identifiable assets	**0.2**
Goodwill	3.8
Total consideration paid in cash	**4.0**

The acquisition consideration of £4.0 million was settled entirely in cash, with no deferred or contingent consideration payable.

No cash or cash equivalents were acquired, therefore the net cash outflow on acquisition was £4.0 million.

Billington Bioenergy contributed revenues of £1.8 million and EBITDA of £nil to the results of the Group in the period between the acquisition date and the balance sheet date.

Total goodwill on the condensed consolidated balance sheet at 30 June 2015 was £14.5 million, with £10.7 million attributable to Haven Power Limited and £3.8 million arising on the acquisition of Billington Bioenergy in the period (30 June and 31 December 2014: £10.7 million entirely attributable to Haven Power Limited).

11. 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
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Profit/(loss) for the period	**38.8**	(6.7)	128.7
Adjustments for:			
Interest payable and similar charges	**14.5**	15.8	29.9
Interest receivable	**(0.4)**	(0.5)	(1.3)
CESP settlement	**-**	-	20.0
Tax charge/(credit) (note 4)	**14.2**	(4.1)	37.2
Depreciation and amortisation	**49.8**	41.5	80.7
Unrealised losses/(gains) on derivative contracts	**3.0**	55.9	(65.8)
Defined benefit pension scheme charge	**3.2**	3.1	6.2
Non-cash charge for share-based payments	**3.5**	2.8	5.9
Operating cash flows before movement in working capital	**126.6**	107.8	241.5
Changes in working capital:			
Decrease/(increase) in inventories	**61.7**	(28.9)	(45.9)
Decrease/(increase) in receivables	**78.0**	24.6	(116.3)
Increase in payables	**48.3**	38.5	78.3
Total decrease/(increase) in working capital	**188.0**	34.2	(83.9)
Decrease in carbon assets	**-**	26.5	26.5
Increase in ROC and LEC assets	**(110.0)**	(97.5)	(45.0)
Defined benefit pension scheme contributions	**(5.7)**	(7.2)	(11.8)
Cash generated from operations	**198.9**	63.8	127.3

12. Reconciliation of net (debt)/cash

This note reconciles our 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
	2015 (Unaudited) £m	2014 (Unaudited) £m	2014 (Audited) £m
Net (debt)/cash at 1 January	**(98.6)**	71.2	71.2
Increase/(decrease) in cash and cash equivalents	**81.5**	(8.1)	(86.4)
(Decrease)/increase in short-term investments	**(20.1)**	-	20.1
Increase in net borrowings	**(2.7)**	(100.8)	(103.5)
Net debt at period end	**(39.9)**	(37.7)	(98.6)

Independent review report to Drax Group plc

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 which comprises the Condensed Consolidated Income Statement, the Condensed Consolidated Statement of Comprehensive Income, the Condensed Consolidated Balance Sheet, the Condensed Consolidated Statement of Changes in Equity, the Condensed Consolidated Cash Flow Statement and related notes 1 to 12. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in note 2, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, "Interim Financial Reporting," as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2015 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom

27 July 2015

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, 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 (CPS) 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, unrealised gains/(losses) on derivative contracts and the one-off settlement of CESP in 2014.

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").

H1 2014
The six-month period ended 30 June 2014.

IFRS
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.

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

Net sales at customer meter
The volume of power sold to customers by our Retail business expressed at the customer meter. This reflects the deduction of transmission and distribution losses incurred in transporting 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.

Renewable support
Term used to refer to any financial incentive in respect of renewable energy generation. At present this predominantly reflects the value ascribed to ROCs and LECs, which is accounted for as a deduction from fuel costs within costs of sales.

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.

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, one-off items that do not reflect the underlying performance of the Group and the associated tax.

Winter
The calendar months October to March.

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