

3 August 2010

DRAX GROUP PLC
(Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2010

Drax Group plc announces its half year results for the six months ended 30 June 2010 and reports on key developments.

Six months ended 30 June	2010	2009	% Yr on Yr
Key financial performance measures			
EBITDA ⁽¹⁾ (£ million)	184	150	23%
Underlying earnings per share ⁽²⁾ (pence)	28.2	24.5	15%
Interim dividend ⁽³⁾ (pence per share)	14.1	4.1	-
Statutory accounting measures			
Profit before tax (£ million)	132	34	-
Reported earnings per share (pence)	26	7	-

Highlights

- Improved 2010 profits underpinned by strong hedge
- Operational excellence enhancing profitability
 - Forced outage rate of 2.7% compared to long term target of 4.5%
- Some improvement in dark green spreads, but remain cautious on commodity market outlook
- Progressing options for electricity generation from sustainable biomass, with investment dependent on supportive policy framework
 - Working with the new Government and Ofgem to facilitate demonstration of full conversion of a coal-fired generating unit at Drax to 100% biomass – a UK first
 - Regulatory uncertainty means development work for first dedicated biomass plant will continue into 2011 before investment case can be proven

Dorothy Thompson, Chief Executive of Drax, said:

“We have delivered an excellent performance across the business in the first six months of the year. The decision taken last year to accelerate our hedged position for 2010 at higher average margins than for 2009 has improved our earnings. Strong operational performance and continued tight cost control have further enhanced profitability.

“Our record on project execution was strengthened in June with the successful commissioning of the world’s largest biomass co-firing facility on time and to budget, which provides us with the capability to produce 12.5% of our output from biomass.

“We believe reliable and flexible electricity generation from biomass could and should make a significant contribution to meeting the UK’s challenging renewables and climate change targets at relatively low cost. With seven years’ experience of working with biomass we are well placed to drive this, and we look forward to working with the new Government to make it a reality.”

H1 2010 Review

Financial

- EBITDA for H1 2010 +23% at £184 million (H1 2009: £150 million)
 - Accelerated hedge implemented last year at higher average margins than for 2009
 - Virtually fully hedged for 2010 with strong hedge for 2011 and 2012
- Continued drive on cash management
 - Net cash at 30 June 2010 of £71 million (30 June 2009: net debt of £169 million)
- Further actions taken to strengthen business model
 - Including execution of new £135 million trading facility and continued expansion of Haven, our electricity supply business
- Ongoing dialogue with HMRC re. Eurobond tax asset – working to accelerate timetable
 - Possibility of resolution within 12 months
- Distribution policy: 50% pay-out of underlying earnings
 - Interim dividend of 14.1 pence per share, or £51 million (H1 2009: 4.1 pence per share, or £15 million)

Operations

Six months ended 30 June	2010	2009
Key operational performance measures		
Forced outage rate (%)	2.7	8.6
Load factor (%)	77.4	69.3
Electrical output (net sales) (TWh)	12.7	11.4

- Excellent safety and operational performance delivered whilst holding underlying costs level
 - Turbine upgrade project now more than two-thirds complete
- Higher than expected output due to unseasonably cold weather early in the year, albeit with incremental volume at low margins
 - Now expect full year output of c.24TWh
- Co-firing facility commissioned – on time and to budget
 - Capability to produce 500MW (or 12.5%) output from co-firing biomass now proven

Notes:

- (1) EBITDA is profit before interest, tax, depreciation, amortisation and loss on disposal of fixed assets and unrealised losses on derivative contracts. 2009 EBITDA includes £5 million profit on the close out of foreign exchange derivative contracts.
- (2) Underlying earnings per share excludes unrealised losses on derivative contracts totalling £12 million (2009: £83 million) and the associated tax credit.
- (3) Based on the number of shares in issue as at 30 June 2010 and 30 June 2009 respectively.

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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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Management Presentation and Conference Call

Management will host a presentation for analysts and investors at 9:00am (UK Time) today, Tuesday 3 August 2010, at the City Presentation Centre, 4 Chiswell Street, Finsbury Square, London, EC1Y 4UP.

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) on Tuesday 3 August 2010 for download at:

[www.draxgroup.plc.uk>>investors>>results and reports>>IR presentations>>2010](http://www.draxgroup.plc.uk/investors/results-and-reports/IR-presentations/2010)

or use the link http://www.draxgroup.plc.uk/investor/results_and_reports/presentations

Event Title:	Drax Group plc: Half Year Results
Event Date:	Tuesday 3 August 2010
Event Time	9am (UK time)
UK Call In Number	020 7162 0025
International Call In Number	+ 44 (0)20 7162 0025
US Call In Number:	+ 1 334 323 6201
Webcast details	Live Event Link: http://wcc.webeventservices.com/r.htm?e=228651&s=1&k=9296BA83B7B557C19D52AF9F736A3A6F&cb=blank
UK Instant Replay	
Start Date:	Tuesday 3 August 2010
Delete Date:	Thursday 2 September 2010
Dial In Number	020 7031 4064
Passcode:	867584

US Instant Replay	
Start Date	Tuesday 3 August 2010
Delete Date:	Thursday 2 September 2010
Dial In Number:	1-954-334-0342
Freephone number (US only):	1-888-365-0240
Passcode:	867584
Video Webcast	
Start Date:	Tuesday 3 August 2010
Delete Date:	Monday 1 August 2011
Archive Link:	http://wcc.webeventservices.com/r.htm?e=228651&s=1&k=9296BA83B7B557C19D52AF9F736A3A6F&cb=blank

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Drax Group plc

Half year report 2010

Chairman's introduction

Despite challenging commodity market conditions, we have seen improved profits for the first six months of this year compared to this time last year. The improvement stems from action we took midway through 2009 to accelerate our power sales and take advantage of higher margins. Our operational performance is critical to delivering against our contracted position and I am pleased to report that our performance in this regard has been excellent. The focus on managing our costs last year has been carried through to this year and continues to support earnings and assist in protecting the business during the current economic climate.

Against this backdrop, I am able to confirm that in October shareholders will receive an interim ordinary dividend of 14.1 pence per share, equivalent to approximately £51 million. This is in line with our new dividend policy, which is to distribute 50% of underlying earnings in each year.

Reducing carbon emissions remains central to our business strategy. Our two major strategic carbon abatement projects continue to make good progress. The turbine upgrade project is now just over two-thirds complete. In addition, we have completed and fully commissioned the new biomass co-firing facility, although this facility is underutilised at present due to the economics favouring coal burn.

Notwithstanding the economics of biomass co-firing, we continue to believe that electricity generation from biomass has considerable potential in the future energy mix of the UK. Biomass is renewable, can be sustainable, and is plentiful and diverse. Also, the technology to generate electricity from biomass is proven and cost effective. All of these characteristics are extremely important considerations for a future energy mix that must be low carbon, affordable and which will need to deliver reliable and secure supplies of electricity.

Drax has now been generating electricity from biomass for seven years. During the first half of 2010 we have developed our options to expand our capability to generate electricity from biomass. Delivery is dependent on the right policy framework being in place, and to that end we are working with the new Government and the industry regulator, Ofgem, to make our plans a reality.

At the other end of the supply chain, we continue with our strategy to build a diversified route to market through the expansion of our electricity supply business, Haven Power Limited ("Haven"). Since its acquisition in early 2009, Haven has proved to be a valuable route to market by providing an alternative to trading in the wholesale market.

The composition of our Board has changed in recent months. Jamie Dundas, one of our non-executive directors, stepped down from the Board at our AGM in April. I should like to thank Jamie for his time, commitment and significant contribution to the Company since joining the Board in December 2005. In June, we announced the appointment of Tony Thorne as a non-executive director. I am pleased to welcome Tony as a member of the Board, as well as member of the Audit, Nominations and Remuneration Committees. I look forward to his contribution to the Board which will benefit from his depth of experience in commercial and industrial issues.

Finally, my thanks go to all our staff for their sustained commitment to the business throughout the last six months.

Charles Berry
Chairman
2 August 2010

Business review

Chief Executive's statement

Introduction

The first half of this year has been characterised by improved profits underpinned by a strong hedged position, excellent operational performance and meaningful progress on carbon abatement. Throughout the six months we maintained our focus on strong financial management, holding underlying costs level during the period.

The reliability of Drax Power Station has provided valuable support for the accelerated hedged position we started the year with, which equated to over 90% of our power output sold for the full year. During the first quarter of 2010 market dark green spreads reached historic lows. There was some improvement during the second quarter, but it is too early to tell whether this is sustainable, and so our cautious outlook remains.

Our new biomass co-firing facility was delivered to time and to budget, and the turbine upgrade project is now just over two-thirds complete. We have also made good progress on developing options for electricity generation from sustainable biomass, including the exciting prospect of demonstrating the conversion of one of our existing coal-fired generating units to run purely on biomass.

Our electricity supply arm, Haven Power Limited ("Haven"), has continued to grow its small and medium enterprise customer base. We have completed the necessary market entry assessment work to take us into the larger industrial and commercial supply market and we are now investing in the systems and people to support market entry. Haven continues to provide us with a valuable alternative to trading through the wholesale market.

Commodity markets

After facing challenging commodity market conditions throughout 2009, dark green spreads continued to deteriorate in the early part of this year. However, during the second quarter we experienced some improvement in market conditions, with the gas market continuing to be the dominant factor in driving UK power prices and dark green spreads.

Gas prices increased towards the end of the half year, reflecting lower liquefied natural gas ("LNG") supply into the UK following higher than anticipated demand from Asia and lower production in Qatar. In addition, there were some early signs of recovery in continental European gas demand. Significant quantities of continental European gas are still supplied under oil-indexed gas contracts, and in 2010 the pricing in these contracts has been generally higher than the UK gas price. The tighter near-term market combined with high exports to the continent drove a strengthening in UK gas prices during the second quarter. Increased gas prices pushed power prices higher, and with coal and carbon prices also increasing during the same period, but to a much lesser extent, we saw some improvement in dark green spreads across the forward curve. However, it is too early to tell whether this improvement is sustainable.

LNG and shale gas remain key drivers of the long-term global gas markets. Shale gas is largely a US phenomenon in the near-term. Horizontal drilling technology has advanced but the research papers remain divided on the marginal cost and available volumes at the lower end of the cost scale. However, the US has significant reserves that could enable them to become relatively self sufficient. This could reduce their LNG requirements freeing up more volume for the Asian and European markets depending on their relative market price. In the longer term other countries such as China may also exploit potentially large Shale gas reserves. However, developments outside of the US are in their infancy so will have little impact in the short to medium-term.

In the power market, demand does appear to be stabilising after the effects of the recession. There was a small increase in UK power demand in the first half of 2010, but this is most likely the result of unseasonably cold weather earlier in the year. However, to balance this, on the supply side we are also now seeing significant new, gas-fired capacity coming on line as well as a growth in embedded generation.

We remain strongly hedged and as such have not further accelerated our hedging for future years. This is in line with our intention to move back towards a rolling hedged position of broadly 60%:40%:20% over the subsequent three years.

Operating performance

Over the first half of the year we have delivered excellent operational performance and our safety record continues to be industry leading. A forced outage rate of 2.7% for the first six months compares very favourably with our long-term annual target of 4.5%. The resultant reliability and high availability have effectively underpinned our strong hedged position and, combined with our operational flexibility, we have continued to provide key services to the electricity transmission network.

The major planned outage for this year has been completed. As in previous outages, our safety statistics were impressive in the context of the many thousands of man-hours worked. For the sixth year running we were awarded with the Royal Society for the Prevention of Accidents Gold Award, and with it our second Gold Medal Award. Our commitment to delivering a positive health and safety culture which goes beyond statutory requirements remains.

Our capital project work continues apace, including the upgrade of the high pressure and low pressure turbine modules across all six of our generating units, which is now just over two-thirds complete with a further unit upgrade being completed in June 2010. The performance data show that we are operating to the guaranteed performance level, which means that we are comfortably operating at an overall efficiency of above 39%, bringing with it a saving of over half a million tonnes of CO₂ a year.

The second of our major carbon abatement projects at the power station, the new biomass co-firing facility, was completed to time and to budget. The facility has been proved at full capacity, so we now have the capability to produce 500MW (or 12.5%) of our power output from biomass – the equivalent output to over 600 wind turbines – which would result in a saving of over 2.5 million tonnes of CO₂ a year.

Biomass Options

It has become increasingly clear to us that biomass could and should play a far greater role in helping to meet the UK's challenging carbon reduction and renewables targets. Along with the UK's need for new capacity as many old coal and nuclear plants close, we believe the case for reliable and flexible renewable electricity generating plants is irrefutable. To this end we have committed to progress a comprehensive package of sustainable biomass options, provided the Government's energy policy framework supports it.

Building on our seven years of experience with burning biomass at Drax Power Station, initial feasibility work has offered the prospect of converting coal-fired generating units to run solely on biomass. Although undeniably challenging, all of the indications are that it is technically possible. Given the right policy framework we will commit to demonstrate the conversion of one of our units to burn solely biomass. We are working with the new Government and Ofgem in seeking to progress this demonstration project, which would be the first such conversion in the UK.

Turning to our project to develop three 290MW dedicated biomass-fired generation power plants in partnership with Siemens Project Ventures GmbH ("Siemens"), for much of the first six months of the year we, along with other biomass plant developers, engaged with the Government advocating the need for a guaranteed level of support for new dedicated biomass plants over their lifetime – known as "grandfathering". We argued that grandfathering provisions are needed to provide certainty for investment decisions. We were pleased to see that the Annual Energy Statement on 27 July committed the Government to grandfathering support for dedicated biomass for 20 years at the rate applicable at the point of accreditation, which is at or just prior to commissioning (1.5 ROCs per MWh under the current band).

However, the ROC bands are subject to review every 4 years. The next banding review commences in October with any revisions to the bands notified in 2012, ahead of implementation on 1 April 2013. Any dedicated biomass plant which is accredited after 1 April 2013 will be grandfathered at the rate applicable at that time, which, depending on the outcome of the review, may differ to the current rate. As it takes over three years to build a 290MW dedicated biomass-fired generation plant, we expect all of the new plants which we plan to develop with Siemens to be accredited after 1 April 2013. There is therefore, no clarity today on the level of ROC support that these plants will receive. We do not believe it is possible to move forward with these investments in the absence of this clarity. We are urging the Government to address this particular issue early in the next banding review and we hope for an early conclusion.

We were originally targeting the end of 2010 to prove the investment case for our first plant, this is now not possible. The lack of regulatory clarity over ROC band support including grandfathering means it has not been possible to progress some key areas of the project development. Once we have this clarity, we will work quickly to reduce the impact of this delay on the schedule and to prove the investment case.

Outside of the grandfathering issue, we expect to receive the Government's decision on the planning applications submitted for two of our three planned dedicated biomass plant sites in the second half of this year. We are in negotiation to finalise terms and pricing with a lead bidder for the Engineering, Procurement and Construction ("EPC") contract for the first plant. We have been negotiating fuel sourcing and logistics arrangements, with fuel volume offers now well in excess of project capacity and have been progressing the hedging structure. Finally, we have continued to review the capital structure and funding arrangements for these investments, with a financial advisor to the project recently appointed.

On biomass co-firing, we will optimise the amount of biomass we co-fire with coal at Drax Power Station. Our facility is currently underutilised, as the economics favour burning coal and paying the price of CO₂ emissions allowances. We hope to be in a position to make representations to the Government on the economics as part of the banding review process which commences in October, although any revised support levels will not be implemented until 2013.

Central to our philosophy is a commitment to burn only sustainable biomass which is fully compliant with robust criteria on greenhouse gas life cycle savings, environment and social considerations.

Political and regulatory outlook

We believe the emphasis placed on the green agenda by the Coalition Government is encouraging. With the right policy framework, our biomass commitments will make a significant contribution to cutting carbon emissions and supporting the creation of new green jobs and technologies. We look forward to working in consultation with the new Government to deliver these actions and address the threat of climate change.

With regard to emissions, after some two years of negotiation, the European Parliament and the Council reached agreement in July on a compromise on the Industrial Emissions Directive, which introduces stricter concentration standards on emissions of nitrogen oxides, sulphur dioxide and dust from 2016. EU Member States will be able to use transitional national plans to allow large combustion plants, such as Drax Power Station, up to July 2020 to meet the new standards, although plants will be subject to annual emissions limits until the new standards are met. Some older plants may not have to meet the standards as long as they close by the end of 2023 or only operate for 17,500 operating hours after 2016, whichever limit is reached first. The agreement provides important flexibility on the significant investment decisions that will need to be made to ensure compliance. Engineering and design work at Drax is well advanced, with a wide range of options to achieve compliance under consideration.

Looking ahead

We remain cautious in our outlook for the commodity markets in which we trade. However, we will continue to benefit from our strong hedged position for 2010, 2011 and 2012. For the remainder of 2010 we will maintain our focus on excellent operational performance and careful cash management to maximise shareholder returns in these challenging market conditions.

We will continue our work to deliver value growth from our core competencies of production, capital project management, trading and biomass procurement. Central to our success will be progress on our continued dialogue with the Government and Ofgem to further our ambitions to expand our electricity generation from biomass, and so deliver reliable and sustainable low carbon supplies of electricity for the UK.

Dorothy Thompson

Chief Executive
2 August 2010

Operational and financial performance

	Six months ended 30 June 2010	Six months ended 30 June 2009
	£m	£m
Results of operations		
Total revenue	780.6	706.9
Fuel costs in respect of generation ⁽¹⁾	(381.8)	(370.4)
Cost of power purchases ⁽²⁾	(97.6)	(81.1)
Grid charges ⁽³⁾	(35.3)	(31.2)
	(514.7)	(482.7)
Gross profit	265.9	224.2
Other operating and administrative expenses excluding depreciation, amortisation and unrealised losses on derivative contracts ⁽⁴⁾	(81.8)	(74.0)
EBITDA⁽⁵⁾	184.1	150.2
Depreciation, amortisation and loss on disposal of fixed assets	(25.3)	(23.5)
Unrealised losses on derivative contracts	(12.4)	(83.3)
Operating profit	146.4	43.4
Net finance costs	(14.2)	(9.6)
Profit before tax	132.2	33.8
Tax charge	(38.3)	(10.3)
Profit for the period attributable to equity shareholders	93.9	23.5
	pence	pence
Earnings per share		
– Statutory basic and diluted	26	7
– Underlying basic and diluted ⁽⁶⁾	28	25

All results relate to continuing operations.

Notes:

- (1) Fuel costs in respect of generation predominantly comprise coal and CO₂ emissions allowances, together with petcoke, oil and biomass.
- (2) Cost of power purchases represents power purchased in the market.
- (3) Grid charges include transmission network use of system charges ("TNUoS"), balancing services use of system charges ("BSUoS") and distribution use of system charges ("DUoS").
- (4) Other operating and administrative expenses excluding depreciation, amortisation, loss on disposal of fixed assets and unrealised losses on derivative contracts include salaries, maintenance costs and other administrative expenses.
- (5) EBITDA is defined as profit before interest, tax, depreciation, amortisation, loss on disposal of fixed assets and unrealised losses on derivative contracts.
- (6) Underlying EPS is defined as earnings per share on underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts.

Introduction

EBITDA was £184 million for the six months ended 30 June 2010 compared to £150 million for the six months ended 30 June 2009. We benefited from our strong hedged position, which locked in higher average margins than for 2009, as well as from some improvement in near-term dark green spreads.

Our improved profitability was supported by our strong operational performance, which we achieved whilst holding underlying costs level through the period.

We have taken further steps to underpin the strength of our business model, including the execution of a new £135 million trading facility. In addition, our retail business, Haven Power Limited ("Haven") continues to provide a valuable alternative to trading through the wholesale electricity market, and has increased its customer base by 17% during the first six months of 2010.

Our new policy to distribute 50% of underlying earnings is now effective. We will pay an interim dividend of 14.1 pence per share (£51 million) for the six months ended 30 June 2010, compared to 4.1 pence per share (£15 million) for the six months ended 30 June 2009.

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

Revenue

Total revenue for the six months ended 30 June 2010 was £781 million compared to £707 million in 2009. Total revenue in 2010 includes power sales of £712 million (2009: £659 million), retail sales of £49 million (2009: £26 million) and other income of £20 million (2009: £22 million).

Higher power sales reflect an increase in net power sold from 11.4TWh in the six months ended 30 June 2009 to 12.7TWh in 2010, arising largely as a result of unseasonably cold weather during the early part of 2010. Whilst margins captured on this incremental sales volume were low, the additional generation has resulted in a reduction of 0.6 million tonnes in our coal stocks and consequent improvement in our cash balances (see Analysis of cash flows).

Average wholesale achieved electricity price of £50.6 per MWh for the six month period is broadly in line with 2009 (£50.7 per MWh), and is a blend of locking in higher prices through our strong hedge, offset by the additional sales volume at lower prices for trades placed in 2010.

Retail sales volumes have increased from 0.3TWh in the six months to 30 June 2009 (Drax acquired Haven mid-way through this period) to 0.6TWh in the six months to 30 June 2010. This reflects planned growth in Haven's small and medium enterprise ("SME") customer base from 19,000 at 30 June 2009 to 24,000 at 31 December 2009 and 28,000 at 30 June 2010.

In addition to wholesale power and retail sales, total revenue also includes income from the provision of ancillary services, the sale of by-products (ash and gypsum), and the sale of ROCs and LECs. In the six months ended 30 June 2010 these revenues were £20 million compared to £22 million in 2009.

Fuel costs (coal and other fuels)

Fuel costs in respect of generation during the six months ended 30 June 2010 were £382 million, compared to £370 million in 2009. The increase was primarily due to higher generation.

We burnt approximately 4.7 million tonnes of coal in the six months ended 30 June 2010 compared to approximately 4.2 million tonnes in 2009. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities.

In 2010 we also burnt 0.3 million tonnes of biomass (2009: 0.2 million tonnes) and 0.1 million tonnes of petcoke (2009: 0.2 million tonnes). Coal comprised around 89% of total fuel burnt (by energy content) in the six months ended 30 June 2010 compared to 90% in 2009. Biomass comprised 5% of total fuel burnt in 2010 compared to 3% in 2009. The increase in biomass burn is a result of the commissioning and early operation of our new co-firing facility (see Capital expenditure).

Our average cost of fuel is a function of the timing of purchases under domestic and international contracts in the forward and near-term markets and fuel mix. The average cost of fuel per MWh (excluding CO₂ emissions allowances) was £24.7 for the six months ended 30 June 2010, compared to £24.5 in 2009. The small increase in average fuel prices was a function of mix and commodity price movements. Costs per

MWh for 2009 are adjusted to exclude a £5 million benefit arising on the close out of a number of in-the-money foreign exchange contracts.

In the markets, spot prices for internationally traded coal delivered into North-West Europe were fairly stable during 2009, with a high of US\$84 per tonne, low of US\$56 per tonne and closing the year at US\$81 per tonne. There was downward pressure in the near-term, with recession induced weaker demand causing over supply and higher stock levels, particularly in Europe. Spot prices rose to US\$91 per tonne at 30 June 2010 as a result of continued demand growth in China and anticipation of global economic recovery.

Fuel costs (CO₂ emissions allowances)

For Phase II of the EU ETS (2008–2012), Drax has an allocation of 9.5 million tonnes of CO₂ emissions allowances per annum under the UK NAP. We purchase CO₂ emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Our CO₂ emissions allowances requirement for the six months ended 30 June 2010, including those allocated under the UK NAP, was approximately 10.8 million tonnes compared to approximately 9.9 million tonnes in 2009, as a result of increased generation offset by plant efficiency improvements and higher biomass burn.

In the markets, the price of Phase II CO₂ emissions allowances began 2009 at approximately €15.4 per tonne, and in common with power and coal prices fell during 2009, subsequently stabilising at €12.5 per tonne at 31 December 2009. During 2010 prices have increased to €15.3 per tonne at 30 June 2010, reflecting a reduction in selling by industry and increased demand driven by early signs of economic recovery.

Our average price of carbon is a function of the timing of purchases under fixed price contracts in the forward and near-term markets. The average price expensed for purchased CO₂ emissions allowances during the six months ended 30 June 2010 was £12.0 per tonne compared to £16.6 per tonne in 2009, reflecting the fact that we locked into carbon contracts to cover our 2010 liability during 2009 when we sold the related power. Similarly, the 2009 carbon cost reflects contract prices which were largely locked in during 2008.

Cost of power purchases

We purchase power in the market when the cost of power in the market is below our marginal cost of production in respect of power previously contracted for generation and delivery by us, and to cover any shortfall in generation. In addition, Haven purchases power in the wholesale market for delivery to its retail customers. For the six months ended 30 June 2010, the cost of purchased power was £98 million compared to £81 million incurred in 2009. Haven's cost of power purchases amounted to £30 million for the first half of 2010, including the cost of power purchased directly from Drax.

Grid charges

Grid charges for the six months ended 30 June 2010 were £35 million compared to £31 million in 2009. Grid charges include costs of £10 million incurred at Haven (2009: £4 million).

As a result of these factors, gross profit for the six months ended 30 June 2010 was £266 million compared to £224 million in 2009.

Operating and administrative expenses

Other operating and administrative expenses before depreciation and amortisation were £82 million for the six months ended 30 June 2010 compared to £74 million in 2009. Underlying costs were held level through our continued focus on base business efficiencies and process re-engineering. The cost increase of £8 million reflects investment in growth (Haven and dedicated biomass), as well as our first year's obligation for the community energy saving programme ("CESP"). Other operating and administrative costs in 2010 include £8 million incurred at Haven, compared to £3 million in 2009.

EBITDA for the six months ended 30 June 2010 was therefore £184 million compared to £150 million in 2009.

Depreciation and amortisation was £25 million for the six months ended 30 June 2010 and £24 million for the six months ended 30 June 2009.

Unrealised gains and losses on derivative contracts

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IFRSs. Where possible, we take the own use exemption for derivative contracts entered

into and held for our own purchase, sale or usage requirements, including forward domestic coal contracts. As such, the net unrealised gains and losses recognised in the balance sheet principally relate to the mark to market of our forward contracts for power yet to be delivered, net of mark to market positions on financial coal and foreign exchange contracts. The following table describes the movements in unrealised gains and losses and where they are recorded in our financial statements.

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m	Year ended 31 December 2009 £m
Net unrealised gains/(losses) in the balance sheet at beginning of the period	234.1	(15.7)	(15.7)
Unrealised losses recognised in the income statement	(12.4)	(83.3)	(129.7)
Fair value (losses)/gains recognised in the hedge reserve (a component of equity)	(165.5)	341.3	375.5
Other	(0.7)	4.0	4.0
Net unrealised gains in the balance sheet at end of the period	55.5	246.3	234.1

The trends in forward power prices, which largely determine the movements in our net unrealised gains/(losses) position are described the Chief Executive's statement.

During 2009 power prices fell such that the average price of power that had been contracted but had yet to be delivered at 31 December 2009 was much higher than market prices, driving the recognition of a net unrealised gain of £234 million in the balance sheet. During 2010 power prices fell through the first quarter, but subsequently increased such that by 30 June the difference between power that had been contracted but not yet delivered and the market price had narrowed considerably, reducing the unrealised gain in the balance sheet to £56 million.

The unrealised losses recognised in the income statement of £12 million for the six months ended 30 June 2010 and £83 million in 2009 arise from mark to market movements on our derivative contracts which do not qualify for hedge accounting; largely financial coal and foreign exchange contracts.

Mark to market movements on most of our derivative contracts, considered to be effective accounting hedges, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark to market positions relating to power delivered during a reporting period, and the recording of mark to market positions on power yet to be delivered at the end of that period. The net unrealised loss recognised through the hedge reserve in the six months ended 30 June 2010 was £166 million, compared to a net unrealised gain of £341 million in 2009. The net unrealised loss in 2010 arose largely as a result of a net improvement in power prices over the first six months of the year. By contrast, in 2009 power prices fell significantly over the corresponding period, resulting in a net unrealised gain.

In considering mark to market movements, it is important to recognise that profitability is driven by our strategy to deliver market level dark green spreads, not by the absolute price of electricity at any given date.

After allowing for unrealised losses on derivative contracts, operating profit for the six months ended 30 June 2010 was £146 million compared to £43 million in 2009.

Interest

Net finance costs for the six months ended 30 June 2010 were £14 million compared to £10 million in 2009. The increase of £4 million includes arrangement fees and other charges associated with a new £135 million trading facility (see Liquidity and capital resources). It also includes higher funding costs now applied to our term loan and working capital facilities following the refinancing completed in August 2009.

Tax

The tax charge for the six months ended 30 June 2010 was £38 million (an effective rate of 29%), compared to £10 million in 2009 (an effective rate of 30%).

As described on page 89 of our 2009 Annual report and accounts, unwinding the Group's Eurobond financing structure in December 2008 gave rise to potential tax losses with a cash effect of up to £220 million.

As at 30 June 2010, we had utilised in the region of £105 million of these potential tax losses, which is reflected in our cash position. However we have ring-fenced this cash, and will not reflect any benefit of the £105 million, or further utilisation of the remaining losses, in our income statement until our position with HMRC is certain.

We have continued our dialogue with HMRC over this tax position, and now believe resolution within 12 months is a possibility. However, whilst we still believe we have a strong and robust case, we are no clearer as to whether we will ultimately be successful.

Profit for the period and earnings per share

As a result of the above factors, profit attributable to equity shareholders for the six months ended 30 June 2010 was £94 million compared to £24 million in 2009, and basic and diluted earnings per share were 26 pence compared to 7 pence in 2009.

Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised losses on derivative contracts) was £103 million for the six months ended 30 June 2010 compared to £84 million in 2009. Underlying basic and diluted earnings per share were 28 pence in 2010 compared to 25 pence in 2009.

Other key factors affecting the business

Outages and plant utilisation levels

	Six months ended 30 June 2010	Six months ended 30 June 2009
Electrical output (net sales) (TWh)	12.7	11.4
Load factor (%)	77.4	69.3
Availability (%)	89.5	84.3
Winter forced outage rate (%)	2.4	11.9
Forced outage rate (%)	2.7	8.6
Planned outage rate (%)	8.1	7.7
Total outage rate ⁽¹⁾ (%)	10.5	15.7

Notes:

(1) The forced outage rate is expressed as a percentage of planned capacity available (that is, it includes a reduction for planned losses). The planned outage rate is expressed as a percentage of registered capacity. Accordingly, the aggregation of the forced outage rate and planned outage rate will not equate to the total outage rate.

The load factor for the six months ended 30 June 2010 was 77.4% compared to 69.3% in 2009. The increase arises from an increase in electrical output (net sales) to 12.7TWh in 2010 compared with 11.4TWh in 2009 as described in Revenue above. We continue to demonstrate our leadership position in the coal-fired generation sector with plant availability of 89.5% for the six months ended 30 June 2010 compared to 84.3% in 2009.

The forced outage rate and Winter forced outage rate for the six months ended 30 June 2010 were 2.7% and 2.4% respectively compared to 8.6% and 11.9% in 2009. The higher forced outage rates in 2009 reflect a one-off incident in the Winter quarter which was confined to a single generating unit. Excluding the impact of this unit outage the forced outage rate and Winter forced outage rate for the six months ended 2009 were 5.4% and 5.9% respectively. The improved 2010 forced outage rate compares favourably with our long-term target of 4.5%.

The planned outage rate achieved for the six months ended 30 June 2010 was 8.1% compared to 7.7% in 2009, with one major planned outage completed in both six month periods. Our maintenance regime includes a major planned outage for each of our six units once every four years. Consequently, there is an irregular pattern to planned outages and associated expenditure, since in two of the four years two units will each undergo a major planned outage. We had only one unit undergoing a major planned outage in both 2009 and 2010.

Health and safety

Our lost time injury rate was 0.09 for the six months ended 30 June 2010 compared to 0.05 in 2009. Our safety record continues to be industry leading and was delivered alongside a significant amount of project activity. We continue with our commitment to deliver a positive health and safety culture.

Liquidity and capital resources

Net cash including short-term investments was £71 million at 30 June 2010 compared to net debt of £54 million at 31 December 2009 and net debt of £169 million at 30 June 2009. Cash and short-term deposits were £229 million as at 30 June 2010 compared to £135 million at 31 December 2009 and £165 million at 30 June 2009. An analysis of cash flows is set out in the following table.

Analysis of cash flows

	Six months ended 30 June 2010 £m	Six months ended 30 June 2009 £m
Cash generated from operations	240.2	104.1
Income taxes (paid)/refunded	(28.8)	51.0
Net interest paid	(11.3)	(6.5)
Net cash from operating activities	200.1	148.6
Purchase of property, plant and equipment	(38.6)	(46.4)
Acquisition of a subsidiary	-	(11.1)
Short-term investments	25.0	-
Net cash used in investing activities	(13.6)	(57.5)
Cash flows from financing activities		
Equity dividends paid	(35.0)	(130.0)
Proceeds on issue of equity	-	106.5
Repayment of borrowings	(32.5)	(32.5)
Finance lease borrowings	0.1	-
Purchase of own shares held by employee trust	(0.1)	(0.7)
Net cash used in financing activities	(67.5)	(56.7)
Net increase in cash and cash equivalents	119.0	34.4

Cash generated from operations was £240 million in the six months ended 30 June 2010 compared to £104 million in 2009, reflecting an increase of £34 million in EBITDA as described above, and a working capital inflow of £55 million in 2010 compared to an outflow of £49 million in 2009.

The working capital inflow of £55 million in 2010 was driven by a reduction in coal stocks of 0.6 million tonnes over the first six months, reflecting higher than expected generation largely as a result of unseasonably cold weather during the early part of the year (see Revenue). The working capital outflow in 2009 reflected an increase in coal stocks of 0.7 million tonnes resulting from lower than expected generation over the corresponding period.

Net income taxes paid were £29 million in the six months ended 30 June 2010 compared to £51 million of taxes refunded in 2009. Net cash at 30 June 2010 includes the ring-fenced £105 million cash taxes saved (31 December 2009: £100 million) (see Tax). Unwinding the Eurobond funding structure in December 2008 potentially reduced the 2008 tax liability to £nil, subject to HMRC agreement, resulting in the refund received in the first half of 2009.

Net cash used in investing activities includes payments in respect of capital expenditure of £39 million in the six months ended 30 June 2010 and £46 million in 2009 (see Capital expenditure). 2010 includes repayment of short-term investments of £25 million, comprising cash deposits with a maturity of more than three months at inception. 2009 includes the net acquisition costs for Haven of £11 million.

Net cash used in financing activities was £68 million in the six months ended 30 June 2010 compared to £57 million in 2009. The 2010 amount includes equity dividends paid of £35 million and term loan repayments of £33 million. The 2009 amounts included equity dividends paid of £130 million, net proceeds from the issue of share capital of £107 million and term loan repayments of £33 million (see Capital resources and refinancing).

The increase in cash and cash equivalents was therefore £119 million in the six months ended 30 June 2010, compared to an increase of £34 million in 2009. Drax's policy is to invest available cash in short-term bank, building society or other low risk deposits.

Capital resources and refinancing

Following scheduled debt repayments of £33 million during the period, senior secured debt was £168 million at 30 June 2010 (before deferred finance costs). Scheduled debt repayments are £32 million in the second half of 2010 and £68 million in each of 2011 and 2012, after which point the term loan will be repaid in full.

On 3 August 2009, we completed the refinancing of the remainder of our term loan facility and our £100 million working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities was extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility. The margin over LIBOR on our facilities is 3.5%.

To further underpin the strength of our business model, during the six months ended 30 June 2010 we put in place a new trading facility, which may be used to trade without collateral triggers up to a limit of £135 million. We incurred additional fees and charges of £4 million in connection with the new facilities in the half year period.

Going concern

We acknowledge guidance on going concern for companies preparing financial statements, in the light of recent volatility in financial markets, which has created a general level of uncertainty. However, we have significant headroom on our debt facilities, including the new trading facility, and a recent history of cash generation, strong covenant compliance, and good visibility in medium-term forecasts, due to our progressive hedging strategy. Accordingly we continue to adopt the going concern basis when preparing our Half year report.

Seasonality of borrowing

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £100 million revolving credit facility assists in managing the cash low points in the cycle when required. The revolving credit facility was undrawn at 30 June 2010 and has a final maturity date of December 2012.

Capital expenditure

Fixed asset additions were £32 million in the six months ended 30 June 2010 compared to £46 million in 2009. This includes expenditure of £21 million in 2010 (£29 million in 2009) on our two major strategic carbon abatement projects - the turbine upgrade and investments to extend our biomass co-firing capability.

In relation to the turbine upgrade project, we expect to invest around £100 million to upgrade the high pressure and low pressure turbine modules on all six generating units to improve efficiency. Using proven technology we expect to achieve an overall baseload efficiency (that is, the ratio of energy out to energy in when operating at full capacity) approaching 40%. This will represent a 5% improvement on original baseload efficiency of around 38%. When complete, the project is expected to deliver annual savings of 1.0 million tonnes of CO₂ emissions allowances and approximately half a million tonnes of coal.

During this year's major planned outage we successfully completed the turbine module upgrades on one of our units. Overall, the project is now just over two-thirds complete, with all upgraded turbine modules meeting their guaranteed performance level of 40% efficiency. We are now delivering tangible benefits in terms of efficiency gains and carbon abatement, the latter amounting to a saving in CO₂ emissions of over half a million tonnes per year. With a single unit outage scheduled for 2011, the final turbine upgrade will be undertaken in 2012. Expenditure remains in line with budget.

We are pleased to report that commissioning of our new biomass co-firing facility was completed recently to schedule and in line with budget. The facility enables us to handle and co-fire an additional 1.5 million tonnes of biomass material per annum and has been proven at full capacity. We now have the capability to produce 500MW (or 12.5%) of our power output from biomass, which would result in a saving of over 2.5 million tonnes of CO₂ a year and the displacement of approximately 1.25 million tonnes of coal. The economics of co-firing, however, mean that we are currently underutilising the facility.

We will also continue to evaluate other investment opportunities which may result in additional capital expenditure. Further investment will be required prior to 2016 to meet the requirements of the LCPD and Industrial Emissions Directive ("IED").

Dedicated biomass business

We have continued to progress the expansion of our biomass business through the development of three 290MW dedicated biomass-fired generation power plants in partnership with Siemens Project Ventures GmbH. Further details are provided in the Chief Executive's statement.

Principal risks and uncertainties

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board. The Group set out in its 2009 Annual report and accounts (page 34 – 35) the principal risks and uncertainties that could impact its performance; these remain unchanged since the Annual report and accounts was published.

Related parties

The Group set out in its 2009 Annual report and accounts, page 108, the related party transactions arising. There have been no material changes since the Annual report and accounts was published.

Positions under contract for 2010, 2011 and 2012

We continue to follow our stated trading strategy of making steady forward power sales with corresponding purchases of CO₂ emissions allowances and fuel purchases. Our aim is to deliver market level dark green spreads across all traded market periods and, as part of this strategy, we retain power to be sold into the prompt (within season) power markets. As at 27 July 2010, the positions under contract for 2010, 2011 and 2012 were as set out below.

	2010	2011	2012
Power sales (TWh) comprising:	24.9	15.6	9.7
– Fixed price power sales (TWh) at an average achieved price (per MWh)	22.1 at £51.3	7.7 at £57.4	1.8 at £61.2
– Fixed margin and structured power sales (TWh)	2.8	7.9	7.9
CO ₂ emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	25.1	17.7	21.0
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	24.5	16.6	10.6

Fixed price power sales include approximately 3.0TWh supplied to Centrica in the period 1 January 2010 to 27 July 2010 under the five and a quarter year baseload contract with Centrica which commenced on 1 October 2007.

Fixed margin power sales include approximately 2.8TWh in 2010 and 7.9TWh in each of 2011 and 2012 in connection with the above contract and the five year 300MW baseload contract commencing on 1 October 2010 with Centrica.

Under these contracts the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO₂ emissions allowances amounting in aggregate to approximately 5.4 million tonnes in 2010 and approximately 7.2 million tonnes in each of 2011 and 2012. The contract provides the Group with a series of fixed dark green spreads, with the spreads on the first contract having been agreed in the first quarter of 2006 and with those in the second contract having been agreed in October 2009.

Distributions

Distribution policy

We notified investors of a change to our distribution policy when we announced our biomass growth strategy in October 2008. For 2010 and beyond, we will 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. For the half year, the underlying earnings per share on this basis were 28.2 pence per share.

Dividends paid

On 22 February 2010, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 21 April 2010, to pay a final dividend for the year ended 31 December 2009 of 9.6 pence per share (£35 million). The final dividend was subsequently paid on 14 May 2010.

Dividends proposed

On 2 August 2010, the Board resolved to pay an interim dividend for the six months ended 30 June 2010 of 14.1 pence per share (£51 million), representing 50% of underlying earnings for the period. The interim dividend will be paid on or before 15 October 2010 and shares will be marked ex-interim dividend on 29 September 2010.

This Business review was approved by the Board on 2 August 2010.

Tony Quinlan

Finance Director

2 August 2010

Directors' responsibility statement

We confirm that to the best of our knowledge:

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

By order of the Board.

Dorothy Thompson
Chief Executive
2 August 2010

Tony Quinlan
Finance Director
2 August 2010

Condensed consolidated income statement

	Notes	Six months ended		Year ended
		2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Revenue		780.6	706.9	1,475.8
Fuel costs in respect of generation		(381.8)	(370.4)	(692.5)
Cost of power purchases		(97.6)	(81.1)	(209.5)
Grid charges		(35.3)	(31.2)	(68.0)
		265.9	224.2	505.8
Other operating and administrative expenses		(107.1)	(97.5)	(202.9)
Unrealised losses on derivative contracts		(12.4)	(83.3)	(129.7)
Operating profit		146.4	43.4	173.2
Interest payable and similar charges		(14.9)	(11.0)	(17.3)
Interest receivable		0.7	1.4	1.9
Profit before tax		132.2	33.8	157.8
Tax charge	5	(38.3)	(10.3)	(46.9)
Profit for the period attributable to equity shareholders		93.9	23.5	110.9
		pence	pence	pence
Earnings per share				
– Basic and diluted	6	26	7	31

All results relate to continuing operations.

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

Condensed consolidated statement of comprehensive income

	Six months ended 30 June	Year ended 31 December	
	2010 (Unaudited) £m	2009 (Unaudited) £m	2009 (Audited) £m
Profit for the period	93.9	23.5	110.9
Actuarial losses on defined benefit pension scheme	(3.8)	(22.8)	(15.1)
Deferred tax on actuarial losses on defined benefit pension scheme	1.1	6.4	4.2
Fair value (losses)/gains on cash flow hedges	(165.5)	341.3	375.5
Deferred tax on cash flow hedges	46.3	(95.5)	(105.1)
Other comprehensive (expense)/ income for the period	(121.9)	229.4	259.5
Total comprehensive (expense)/income for the period attributable to equity shareholders	(28.0)	252.9	370.4

Condensed consolidated balance sheet

		As at 30 June	As at 31 December
	2010 (Unaudited) £m	2009 (Unaudited) £m	2009 (Audited) £m
Notes			
Assets			
Non-current assets			
Intangible assets - goodwill	10.7	10.7	10.7
Property, plant and equipment	1,184.3	1,161.8	1,177.2
Derivative financial instruments	50.1	137.8	112.5
	1,245.1	1,310.3	1,300.4
Current assets			
Inventories	180.2	217.8	205.9
Trade and other receivables	161.3	136.8	208.9
Derivative financial instruments	190.6	342.2	308.8
Short-term investments	30.0	–	55.0
Cash and cash equivalents	199.4	164.6	80.4
	761.5	861.4	859.0
Liabilities			
Current liabilities			
Trade and other payables	204.1	158.2	227.3
Current tax liabilities	170.4	133.5	157.8
Financial liabilities:			
– Borrowings	8	62.0	14.9
– Derivative financial instruments		177.1	211.3
		613.6	517.9
		147.9	343.5
Net current assets			
Non-current liabilities			
Financial liabilities:			
– Borrowings	8	96.5	319.0
– Derivative financial instruments		8.1	22.4
Provisions		6.2	5.6
Deferred tax liabilities		283.0	341.9
Retirement benefit obligations		35.9	42.2
		429.7	731.1
		963.3	922.7
Net assets			
Shareholders' equity			
Issued equity	42.1	42.1	42.1
Capital redemption reserve	1.5	1.5	1.5
Share premium	420.7	420.7	420.7
Merger reserve	710.8	710.8	710.8
Hedge reserve	9	107.2	201.8
Retained losses	(319.0)	(454.2)	(376.8)
Total shareholders' equity	963.3	922.7	1,024.7

Condensed consolidated statement of changes in equity

	Issued equity £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained losses £m	Total £m
At 1 January 2009	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
Profit for the year	–	–	–	–	–	110.9	110.9
Other comprehensive income/(expense)	–	–	–	–	270.4	(10.9)	259.5
Total comprehensive income for the year	–	–	–	–	270.4	100.0	370.4
Issue of share capital	2.9	–	–	–	–	102.6	105.5
Equity dividends paid	–	–	–	–	–	(145.0)	(145.0)
Movement in equity associated with share-based payments	–	–	–	–	–	2.0	2.0
Own shares held by employee trust	–	–	–	–	–	(0.8)	(0.8)
Own shares purchased and vested with employees	–	–	–	–	–	(0.7)	(0.7)
At 31 December 2009	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7
At 1 January 2009	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
Profit for the period	–	–	–	–	–	23.5	23.5
Other comprehensive income/(expense)	–	–	–	–	245.8	(16.4)	229.4
Total comprehensive income for the period	–	–	–	–	245.8	7.1	252.9
Issue of share capital	2.9	–	–	–	–	103.6	106.5
Equity dividends paid	–	–	–	–	–	(130.0)	(130.0)
Movement in equity associated with share-based payments	–	–	–	–	–	1.4	1.4
Own shares held by employee trust	–	–	–	–	–	(0.7)	(0.7)
Own shares purchased and vested with employees	–	–	–	–	–	(0.7)	(0.7)
At 30 June 2009	42.1	1.5	420.7	710.8	201.8	(454.2)	922.7
At 1 January 2010	42.1	1.5	420.7	710.8	226.4	(376.8)	1,024.7
Profit for the period	–	–	–	–	–	93.9	93.9
Other comprehensive expense	–	–	–	–	(119.2)	(2.7)	(121.9)
Total comprehensive (expense)/income for the period	–	–	–	–	(119.2)	91.2	(28.0)
Equity dividends paid	–	–	–	–	–	(35.0)	(35.0)
Movement in equity associated with share-based payments	–	–	–	–	–	1.7	1.7
Own shares held by employee trust	–	–	–	–	–	(0.1)	(0.1)
At 30 June 2010	42.1	1.5	420.7	710.8	107.2	(319.0)	963.3

Condensed consolidated cash flow statement

		Six months ended 30 June	Year ended 31 December
	Notes	2010 (Unaudited) £m	2009 (Unaudited) £m
			2009 (Audited) £m
Cash generated from operations	10	240.2	321.4
Income taxes (paid)/refunded		(28.8)	19.4
Interest paid		(12.6)	(13.4)
Interest received		1.3	0.7
Net cash from operating activities		200.1	328.1
Cash flows from investing activities			
Purchase of property, plant and equipment		(38.6)	(93.1)
Acquisition of a subsidiary		–	(11.7)
Short-term investments		25.0	(55.0)
Net cash used in investing activities		(13.6)	(159.8)
Cash flows from financing activities			
Equity dividends paid	7	(35.0)	(145.0)
Proceeds on issue of share capital		–	105.5
Repayment of borrowings	8	(32.5)	(170.1)
Other financing		0.1	(7.0)
Purchase of own shares held by employee trust		(0.1)	(1.5)
Net cash used in financing activities		(67.5)	(218.1)
Net increase/(decrease) in cash and cash equivalents		119.0	(49.8)
Cash and cash equivalents at beginning of the period		80.4	130.2
Cash and cash equivalents at end of the period		199.4	80.4

Notes to the condensed consolidated financial statements

1. General information

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

2. Basis of preparation

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

The information for the year ended 31 December 2009 does not constitute statutory accounts. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditors’ 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.

Following the acquisition of Haven Power Limited (“Haven”), the Group performed a review of the presentation of costs within the consolidated income statement. Management concluded that separate identification of grid charges would provide better information to the users of the Annual report and accounts and the Half year report. Grid charges are defined as transmission network use of system charges (“TNUoS”), balancing services use of system charges (“BSUoS”) and distribution use of system charges (“DUoS”), and generally vary in line with generation or end-user sales. This is a presentational change only and has no net impact on operating profit.

The condensed consolidated financial statements were approved by the Board on 2 August 2010.

Adoption of new and revised accounting standards

In 2010, a number of new standards and interpretations have become effective as noted in the 2009 Annual report and accounts (page 83), in particular, IFRS 3 (revised) “Business Combinations”, which requires any future acquisition costs to be expensed in the income statement. The adoption of these standards and interpretations has not had a material impact on the financial statements of the Group. Since the Annual report and accounts was published no significant new standards and interpretations have been issued.

3. Significant accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group’s Annual report and accounts for the year ended 31 December 2009.

4. Segmental reporting

The business activity of the Group consists primarily of the generation and sale of electricity at the Drax Power Station, the results of which are reviewed as a whole by the Executive Committee and the Board for the purposes of assessing performance and making investment decisions. As such, the Group has only one reportable segment.

Total revenue for the six months ended 30 June 2010 includes amounts of £145.0 million, £120.3 million and £74.3 million derived from three customers (2009: £112.5 million derived from one customer), each representing 10% or more of the Group’s revenue for the period.

5. Taxation

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

	Six months ended 30 June	Year ended 31 December
	2010 (Unaudited) £m	2009 (Unaudited) £m
Tax charge comprises:		2009 (Audited) £m
Current tax	41.4	89.1
Deferred tax	(3.1)	(42.2)
	38.3	46.9

The Group's previous financing structure was unwound on 30 December 2008. A description of this structure, and a related contingent tax liability of up to £90 million, is included in the Annual report and accounts (page 89 and 90).

On 28th June 2010, the Finance Bill 2010-11 was presented to Parliament. The Bill proposed four annual reductions in the rate of corporation tax from 28% to 24% by 2014-15. Since the period end, only the reduction in the corporation tax rate to 27% from April 2011 has been enacted. Had this been substantively enacted at the period end, the deferred tax liability would have been approximately £9 million lower. It is currently expected that each future Finance Bill enacted will reduce the corporation tax rate by 1% until the rate of 24% is reached.

6. Earnings per share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the period. In calculating diluted earnings per share the weighted average number of ordinary shares outstanding during the period is adjusted to take account of share options and contingently issuable shares in relation to the Group's share-based incentive plans. Reconciliations of the earnings and weighted average number of shares are set out below.

	Six months ended 30 June	Year ended 31 December
	2010 (Unaudited) £m	2009 (Unaudited) £m
Earnings:		2009 (Audited) £m
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	93.9	110.9
After tax impact of unrealised losses on derivative contracts	9.0	93.4
Underlying earnings attributable to equity holders of the company	102.9	204.3

	Six months ended 30 June	Year ended 31 December
	2010 (Unaudited)	2009 (Audited)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	364.9	352.7
Effect of dilutive potential ordinary shares under share options	0.5	–
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	365.4	352.7
Earnings per share – basic and diluted (pence)	26	31
Underlying earnings per share – basic and diluted (pence)	28	58

7. Dividends

	Six months ended 30 June	Year ended 31 December	
	2010 (Unaudited) £m	2009 (Unaudited) £m	2009 (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 2009 of 9.6 pence per share paid 14 May 2010	35.0	–	–
Interim dividend for the year ended 31 December 2009 of 4.1 pence per share paid 7 October 2009	–	–	15.0
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid 22 May 2009	–	130.0	130.0
	35.0	130.0	145.0

On 2 August 2010 the Board resolved to pay an interim dividend for the six months ended 30 June 2010 of 14.1 pence per share (equivalent to approximately £51 million) on 15 October 2010. The interim dividend of 14.1 pence per share has not been included as a liability as at 30 June 2010.

8. Financial liabilities – borrowings

	As at 30 June	As at 31 December	
	2010 (Unaudited) £m	2009 (Unaudited) £m	2009 (Audited) £m
Current:			
Term loans	61.9	14.9	62.8
Finance lease liabilities	0.1	–	0.1
	62.0	14.9	62.9
Non-current:			
Term loans	96.0	319.0	126.4
Finance lease liabilities	0.5	–	0.5
	96.5	319.0	126.9

£32.5 million of the term loans was repaid on 30 June 2010. During the previous year, term loan repayments of £32.5 million were made on each of 30 June 2009 and 31 December 2009. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

£105.0 million of the term loans was repaid on 31 July 2009, using the proceeds of a share placing announced on 23 June 2009. The purpose of the share placing was to help maintain the Group's investment grade debt rating.

On 3 August 2009, the Group completed the refinancing of the balance of its term loan facility and the £100 million working capital facility which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities was extended to December 2012 to coincide with the maturity of the £200 million letter of credit facility, which remains in place. Scheduled debt repayments are £32.5 million in December 2010 and £67.5 million in each of 2011 and 2012, after which point the term loan will have been repaid in full.

9. Hedge reserve

The Group's cash flow hedges relate to commodity contracts (principally commitments to sell power), foreign exchange contracts and interest rate swaps. Amounts are recognised in the hedge reserve as the designated contracts are marked to market at each period end for the effective portion of the hedge, which is generally 100% of the relevant contract. Amounts held within the hedge reserve are then released as the related contract matures and the hedged transaction impacts profit or loss. For power sales contracts, this is when the underlying power is delivered.

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

	As at 30 June 2010 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	80.7	24.6	6.0	111.3
Foreign exchange	(2.3)	(0.1)	(0.5)	(2.9)
Interest rate swaps	(1.2)	–	–	(1.2)
	77.2	24.5	5.5	107.2

	As at 30 June 2009 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	112.7	70.5	22.5	205.7
Interest rate swaps	(2.7)	(1.2)	–	(3.9)
	110.0	69.3	22.5	201.8

	As at 31 December 2009 (Audited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	151.8	60.8	16.6	229.2
Interest rate swaps	(2.8)	–	–	(2.8)
	149.0	60.8	16.6	226.4

10. Cash flow from operating activities

	Six months ended		Year ended
	2010 (Unaudited) £m	30 June 2009 (Unaudited) £m	31 December 2009 (Audited) £m
Continuing operations			
Profit for the period	93.9	23.5	110.9
Adjustments for:			
Interest payable and similar charges	14.9	11.0	17.3
Interest receivable	(0.7)	(1.4)	(1.9)
Tax charge	38.3	10.3	46.9
Depreciation and loss on disposal of fixed assets	25.3	23.5	52.0
Unrealised losses on derivative contracts	12.4	83.3	129.7
Defined benefit pension scheme charge	2.8	2.6	5.1
Non-cash charge for share-based payments	1.7	1.4	2.0
Operating cash flows before movement in working capital	188.6	154.2	362.0
Changes in working capital:			
Decrease/(increase) in inventories	25.6	(28.3)	(17.0)
Decrease in receivables	46.9	132.2	61.8
Decrease in payables	(17.1)	(153.2)	(77.7)
Total decrease/(increase) in working capital	55.4	(49.3)	(32.9)
Defined benefit pension scheme contributions	(3.8)	(3.8)	(7.7)
Increase in provisions charged to the income statement	–	3.0	–
Cash generated from operations	240.2	104.1	321.4

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 2010 which comprises the condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated balance sheet, the condensed consolidated statement of changes in equity, the condensed consolidated cash flow statement and related notes 1 to 10. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

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

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2010 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

Deloitte LLP

Chartered Accountants and Statutory Auditors
London, United Kingdom
2 August 2010

Glossary

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).

Average capture price

Revenue derived from bilateral contracts divided by volume of net merchant sales.

Balancing Mechanism

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

Baseload

Running 24 hours per day, seven days per week remaining permanently synchronised to the system.

Bilateral contracts

Contracts with counterparties and power exchange trades.

Company

Drax Group plc.

Dark green spread

The difference between the price available in the market for sales of electricity and the marginal cost of production (being the cost of coal and other fuels including CO₂ emissions allowances).

Direct-injection co-firing

Is a process whereby biomass is fed directly to the burners situated in the boiler walls.

EBITDA

Profit before interest, tax, depreciation and amortisation, gain/(loss) on disposal of fixed assets and unrealised gains/(losses) on derivative contracts.

EU ETS

The EU Emissions Trading Scheme is a mechanism introduced across the EU to reduce emissions of CO₂; the scheme is capable of being extended to cover all greenhouse gas emissions.

Forced outage

Any reduction in plant availability excluding planned outages.

Forced Outage Rate

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

Frequency response service

Services purchased by National Grid to maintain system frequency.

Grid charges

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

Group

Drax Group plc and its subsidiaries.

IFRSs

International Financial Reporting Standards.

LECs

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

Load factor

Net sent out generation as a percentage of maximum sales.

Lost time injury rate

The frequency rate is calculated on the following basis: (lost time injuries x 100,000)/hours worked. Lost time injuries are defined as occurrences when the injured party is absent from work for more than 24 hours.

Net Balancing Mechanism

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

Net merchant sales

Net volumes attributable to bilateral contracts and power exchange trades.

Net sales

The aggregate of net merchant sales and net Balancing Mechanism.

Planned outage

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

Planned Outage Rate

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

Pond fines

Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.

Power revenues

The aggregate of bilateral contracts and Balancing Mechanism income/expense.

ROCs

Renewables Obligation Certificates.

Summer

The calendar months April to September.

Technical availability

Total availability after planned and forced outages.

Through-the-mill co-firing

Is a process whereby biomass passes first through the pulverising mills before going to the burners situated in the boiler walls.

Total recordable injury rate (TRIR)

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

UK NAP

UK National Allocation Plan.

Underlying earnings per share

Earnings per share on underlying earnings, being profit attributable to equity shareholders adjusted to exclude the after tax impact of unrealised gains and losses on derivative contracts.

Winter

The calendar months October to March.

Financial calendar

At the date of publication of this document, the following are the proposed key dates for the remainder of the 2010 financial calendar and outline dates for 2011:

2010
29 September Ordinary shares marked ex-interim dividend
1 October Record date for entitlement to the interim dividend
15 October Payment of interim dividend
9 November Interim Management Statement
14 December Pre-close Statement
31 December Financial year end
2011
22 February Preliminary results announcement
13 April Annual General Meeting

Other significant dates, or amendments to the proposed dates above, will be posted on the Company's website as and when they become available.