

4 August 2009

**DRAX GROUP plc
(Symbol: DRX)**

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2009

Drax Group plc (“Drax” or the “Company”), the UK power generator, announces its Half Year Results for the six months ended 30 June 2009.

Highlights

- EBITDA⁽¹⁾ of £150 million (H1 2008: £206 million), reflecting decreases in average achieved power price and power sold, partially offset by lower fuel and carbon costs.
- Near-term commodity market conditions remain challenging, although we are over 90% hedged for 2009 and over 80% hedged for 2010, at better margins than the current year, in advance of an improving outlook for margins in 2011 and beyond.
- Following the successful Share Placing in June, the Group’s outstanding term loan and revolving credit facilities, in aggregate £235 million maturing in December 2010, have been extended to December 2012. This completes the refinancing.
- Interim Dividend of 4.1 pence per share, approximately £15 million in total.
- Drax continues to make good progress in the execution of its strategy:
 - Strong financial management expected to deliver cost savings in line with guidance given at the Preliminary Results in March.
 - Recently acquired supply business, Haven Power, now fully integrated.
 - Carbon abatement projects remain on budget and on schedule: now halfway through turbine upgrade project; and construction of biomass co-firing facility proceeding to plan.
 - Further milestones met with respect to the biomass growth strategy: three sites selected, all with secure grid connection dates in line with development schedule; and s.36 application submitted for the first site with the remaining two scheduled to be submitted before the end of the year.
- While our expectations for core profits for the full year remain unchanged, an additional £30 million of EBITDA and cash has been added through the close-out of in-the-money foreign exchange contracts relating to fuel and carbon purchases for the period 2010 to 2012. £25 million of this will be recognised in the second half of the year.
 - New foreign exchange contracts at prevailing market levels were transacted at the time of the close-out to ensure that the economic hedge has been preserved.

Commenting on the performance, Dorothy Thompson, Chief Executive of Drax, said:

“During the first half of 2009, we have continued to deliver on our strategy against a backdrop of challenging commodity markets.

“We have successfully strengthened our capital structure and completed our refinancing. Our operational performance continues to be good and we are delivering strong control over costs, capital and cash, remaining on track to deliver the targets we set out in March.

“Our near term market remains volatile and unpredictable. We have therefore accelerated our hedging for 2010 and are now over 80% contracted, at higher achieved margins than the current year. This will underpin next year’s gross profit at a level, under current market conditions, that is comfortably in excess of the underlying level this year.

“Beyond 2010, the forward markets for our commodities continue to show a further improvement in margins. We remain confident in the long term future and potential of Drax”.

Six months ended 30 June 2009 compared to six months ended 30 June 2008:

	Six months ended 30 June	
	2009	2008
	£ million	£ million
Total revenue	707	802
Gross profit	255	307
EBITDA ⁽¹⁾	150	206
Operating profit ⁽²⁾	43	161
Retained earnings	24	118
Underlying retained earnings ⁽³⁾	84	134
	Pence per share	Pence per share
Basic and diluted earnings per share	7	35
Underlying basic and diluted earnings per share ⁽³⁾	25	39
Dividends ⁽⁴⁾	4.1	5.0

Notes:

- (1) EBITDA is profit before interest, tax, depreciation and amortisation and unrealised gains / (losses) on derivative contracts.
- (2) Operating profit includes unrealised losses on derivative contracts of £83 million (2008: operating profit includes unrealised losses on derivative contracts of £22 million).
- (3) Underlying retained earnings excludes unrealised on derivative contracts of £83 million (2008: £22 million) and the associated tax credit of £23 million (2008: £6 million).
- (4) Based on the number of shares in issue at 30 June 2009 and 30 June 2008 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 4 August 2009, 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 4 August 2009 for download at [www.draxgroup.plc.uk>>investors>>results and reports>>IR presentations>>2009](http://www.draxgroup.plc.uk/investors/results_and_reports/IR_presentations/2009) 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 4 August 2009
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://events.webeventservices.com/Drax/2009/08/04/>

UK Instant Replay
Start Date: Tuesday 4 August 2009
Delete Date: Thursday 3 September 2009
Dial In Number: 020 7031 4064
Freephone number (UK only): 0800 358 1860
Passcode: 841421

US Instant Replay
Start Date: Tuesday 4 August 2009
Delete Date: Thursday 3 September 2009
Dial In Number: 1-954-334-0342
Freephone number (US only): 1 888 365 0240
Passcode: 841421

Video Webcast
Start Date: Tuesday 4 August 2009
Delete Date: Tuesday 3 August 2010
Archive Link: <http://events.webeventservices.com/Drax/2009/08/04/>

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Chairman's introduction

We have made steady progress during the first six months of the year, despite operating in a challenging trading environment. With a commitment to delivering value to our shareholders, we have taken sensible steps to ensure we are well placed to continue to do just that.

Following the downgrading of our entity and debt ratings by Standard & Poor's in May, we have strengthened our capital structure. A share placing in June raised some £107 million of equity which has been used to prepay part of our term debt. Early in August we refinanced the residual term debt, extending the final maturity from December 2010 to December 2012.

This year the business has had a strong focus on cost, capital and cash management. Through strong action across the business we fully expect to deliver on our targeted savings.

Our two major strategic carbon abatement projects continue to make good progress and remain on schedule to deliver a saving in carbon dioxide ("CO₂") emissions of up to 17.5% by 2011, compared to 2006 levels. The turbine upgrade project is now just over halfway complete, with a target completion date of 2011. By mid-2010, following completion of the biomass processing facility, the co-firing capability at Drax Power Station will increase to 500MW or 12.5% of the power station's output.

The development, in partnership with Siemens Project Ventures GmbH, of a dedicated biomass-fired generation business is taking shape. We have applied for planning consent for the proposed power station at the Drax site and we expect to submit applications for the remaining two sites by the end of the year.

Shortly after our preliminary results announcement in early March we announced the acquisition of Haven Power Limited ("Haven"), an electricity supply company serving business customers. Haven provides another route to market for the electricity generated by Drax and complements our existing trading strategy.

In October, shareholders will receive an interim ordinary dividend of 4.1 pence per share, equivalent to approximately £15 million.

Finally, my thanks go to all our staff for their continued commitment to the future of the business through a demanding six months.

Charles Berry

Chairman

3 August 2009

Business review

Chief Executive's review

Introduction

During the first half of this year we have made good and steady progress in executing our business strategy. We have accelerated our contracted position for 2010 which has enabled us to provide more certainty over next year's earnings, and strong financial management looks set to deliver the cost reduction and cash management targets in line with the guidance we gave in March.

Following a downgrade by the credit ratings agency, Standard & Poor's, of our entity and debt ratings, we took prudent action in order to protect our investment grade debt rating. In June, we raised some £107 million through a share placing, the funds from which have been used to prepay some of our term debt. Early in August we refinanced the residual term debt, extending the final maturity from December 2010 to December 2012.

Our carbon abatement projects remain on schedule and on budget, and we remain well placed to deliver a reduction of up to 17.5%, compared to 2006, in our emissions of carbon dioxide ("CO₂") by 2011. Good progress is being made on our biomass growth strategy, with key steps taken in the planning consent process.

At the beginning of March, we announced that we had acquired Haven Power Limited ("Haven"), an electricity supply company serving business customers. Although small in the overall context of Drax, the acquisition is in line with our strategy to extend our trading capabilities and options for routes to market. We also firmly believe that Haven will add value to the Drax business through exercising its ability to grow significantly its customer base.

Commodity markets

During the first half of this year we have continued to experience poor commodity market conditions for coal-fired power generators. Power prices have been driven by a number of factors, but the dominant force has been low gas prices as a result of the weak global economy. Reducing demand has led to a global gas surplus, and, with storage for only a finite volume, the UK with its open market has become the consumer of last resort. Plentiful supply has consequently driven gas prices down and power prices on the back of those. In addition, good availability of UK generating capacity, as well as around a 6% reduction in electricity demand compared to a year ago, has put further pressure on power prices and as a result we have seen narrowing dark green spreads. Despite challenging market conditions in the near term, our exposure to these narrowing spreads is mitigated by our strong forward contracted position and our ability to lock in healthier margins in the medium term.

For 2010 and beyond, commodity markets during the first six months of the year anticipated a sharp recovery in prices and dark green spreads. By accelerating our hedging position into 2010 we have locked into these improved spreads and have already sold approximately 80% of our output for 2010 at higher average spreads than for 2009.

Capital structure

The ability and flexibility to trade as a merchant plant maximises value from the business and to this end the maintenance of an investment grade debt rating is important to the current trading strategy. In order to protect our investment grade debt rating, we undertook a share placing to improve the resilience of our capital structure and underpin the business model.

The placing was heavily oversubscribed and successfully raised some £107 million which was used in July to pay down debt and help maintain our investment grade debt rating. Following this prepayment the outstanding term debt and revolving credit facilities, in aggregate £235 million maturing in December 2010, have been extended to December 2012. This completes the refinancing.

Acquisition of Haven Power

Early in March we announced that we had acquired the electricity supply company, Haven. This business is now fully integrated within the Drax group and has proved to be an excellent fit.

Currently serving the needs of some 19,000 small and medium sized business customers, Haven provides another route to market for electricity generated by Drax, not only in terms of volume but also, importantly, through securing term contracts with customers. This additional ability to secure term hedges complements Drax's existing trading strategy.

In addition, Haven has the capacity to grow significantly from its existing customer base, which will add value in its own right.

Operating performance

The major planned outage for this year has been completed; unlike the previous two years, this year we only have one unit undergoing its scheduled four yearly outage. We are pleased to report that throughout the outage the safety statistics were excellent with no worse than first aid incidents recorded. This is a considerable achievement in the context of some 500,000 man-hours being worked during the period.

On top of this a number of key projects were successfully completed, including the upgrade of the high pressure and low pressure turbine modules, which is referred to below. The safety and project achievements are industry leading and represent a very positive step forward for the business.

Continuing with the safety theme, we were delighted to be awarded with the Royal Society for the Prevention of Accidents Gold Medal. The Gold Medal Award recognises and celebrates the achievement of an extremely high standard of health and safety at work over at least five consecutive years. We remain fully committed to maintaining and enhancing a positive health and safety culture in which statutory requirements are viewed as a minimum standard and leading performance is our goal.

Operationally, we have maintained our position at the top of the merit order for UK coal-fired power stations. Our advances in efficiency improvements continue to ensure that our leadership position is retained. Further, the reliability and flexibility of the power station continues to enable the provision of key services to the electricity transmission network.

Our operating performance is illustrated by our plant availability, which for the first half of the year was 84%. During the Winter quarter ended March 2009; our Winter forced outage rate was higher than targeted due to a one-off incident, which was confined to a single generating unit. Following investigation, we are confident that it was an isolated event and there are no indications that we will experience similar events in the future. During the second quarter our forced outage rate was once again in line with our long term target.

Carbon abatement

Both of our strategic carbon abatement projects have continued to make solid progress. During this year's major planned outage we successfully completed the installation of one high pressure and three low pressure turbine modules on one of our units. This takes us to just over halfway through the turbine upgrade project with all turbine modules meeting their guaranteed performance levels of 40% thermal efficiency.

We are now delivering tangible benefits in terms of efficiency gains and CO₂ emissions reduction, with CO₂ emissions savings of some half a million tonnes a year.

In April, we announced that the final contract for the 400MW biomass co-firing project had been awarded to C Spencer Limited. The contract is for the design and build of the rail unloading equipment, and biomass bulk storage and handling systems to feed the direct injection biomass co-firing systems.

On completion, the biomass co-firing facility will be the largest of its type in the world, which alongside Drax's existing co-firing capability will provide a total of 500MW of renewable electricity, or the equivalent output of over 600 wind turbines. The biomass co-firing facility will reduce Drax Power Station's emissions of CO₂ by over two and a half million tonnes each year.

When complete, together the two carbon abatement projects are set to deliver CO₂ emissions savings of over three and a half million tonnes a year, or a 17.5% reduction on 2006 levels.

Commissioning of our straw pellet plant at Goole, East Riding of Yorkshire commenced in June. We are already burning straw pellets produced by the plant within our co-firing facility at Drax Power Station. The pellet plant will have an annual production capacity of 100,000 tonnes. It provides an important and local source of biomass material for our co-firing operation. This plant was built as a pilot project for our co-firing business, and following its success we are now developing plans for additional pellet plants.

Biomass growth strategy

Since our preliminary results announcement we have made further progress on the expansion of our biomass business through the construction of three dedicated biomass-fired power stations. We are developing these new plants in partnership with Siemens Project Ventures GmbH. We will only commit to major investment in this business once we can clearly demonstrate that it will deliver attractive returns. We remain very encouraged by the value potential of this expanded biomass business. The development is progressing in line with our project timetable and we expect to be able to present the investment case for the first dedicated biomass-fired plant towards the end of 2010.

We are reviewing the capital structure under which these investments will be funded given recent guidance from Standard & Poor's. This capital structure work is an integral part of the development of the business.

Construction of the power stations requires section 36 consent under the Electricity Act 1989. The pre-application stages for the site on land adjacent to the existing Drax Power Station and the site at the Port of Immingham have been successfully completed. Consultation with a wide range of stakeholders is a key part of the pre-application stage, and very strong support for the developments was demonstrated through public exhibitions.

Last month we submitted our application for section 36 consent to the Government's Department of Energy and Climate Change for the Drax site development. We expect to submit our application for the remaining two sites by the end of the year.

Looking ahead

We are on course to achieve the cost reduction and cash management targets that we set ourselves earlier in the year. Further, given the current and forecast market conditions, we believe we have already taken appropriate action to secure margins for next year which will be higher than in the current year.

Our carbon abatement projects remain on schedule and on budget, and progress on our biomass growth strategy is in line with the timetable set out.

Dorothy Thompson

Chief Executive

3 August 2009

Business and financial review

Results of continuing operations

	Six months ended 30 June 2009 £m	Six months ended 30 June 2008 £m
Total revenue	706.9	801.8
Fuel costs⁽¹⁾		
Fuel costs in respect of generation	(370.4)	(412.8)
Cost of power purchases	(81.1)	(82.3)
	(451.5)	(495.1)
Gross profit	255.4	306.7
Other operating expenses excluding depreciation, amortisation and unrealised losses on derivative contracts ⁽²⁾	(105.2)	(100.7)
EBITDA⁽³⁾	150.2	206.0
Depreciation and amortisation	(23.5)	(23.5)
Unrealised losses on derivative contracts	(83.3)	(22.0)
Operating profit	43.4	160.5
Interest payable and similar charges	(11.0)	(14.8)
Interest receivable	1.4	3.8
Profit before tax	33.8	149.5
Tax charge	(10.3)	(31.3)
Profit for the period attributable to equity shareholders	23.5	118.2
	Pence per share	Pence per share
Earnings per share		
– Basic and diluted	7	35

Notes:

- (1) Fuel costs comprise the fuel costs incurred in the generation process, predominantly coal and CO₂ emissions allowances, together with oil and biomass. Fuel costs also include the cost of power purchased to meet power sales commitments.
- (2) Other operating expenses excluding depreciation, amortisation and unrealised losses on derivative contracts principally include salaries, maintenance costs, transmission network use of system charges (TNUoS), balancing services use of system charges (BSUoS) and business rates.
- (3) EBITDA is defined as profit before interest, tax, depreciation, amortisation and unrealised losses on derivative contracts.

In the final quarter of last year we saw dark green spreads narrow and experienced significant falls in power, coal and carbon dioxide (“CO₂”) emissions allowances prices. During the first half of 2009 we have continued to experience challenging market conditions for coal-fired generators, with more falls in power prices driving a further contraction in spreads. As a result, EBITDA was £150 million for the six months ended 30 June 2009 compared to £206 million in 2008.

However, our medium-term earnings and cash flow generation are underpinned by a very strong contracted position at healthy margins. We have also made good progress with the initiatives put in place at the beginning of the year to carefully manage our cost base and cash flows, and we have taken significant steps to strengthen our capital structure through a share placing and refinancing our outstanding term loan.

Results of operations

Total revenue for the six months ended 30 June 2009 was £707 million compared to £802 million in 2008. Power sales were £659 million for the six months ended 30 June 2009 compared to £777 million in 2008, reflecting a 5% reduction in our average achieved electricity price to £50.7/MWh (see Price of electricity) and a decrease in net power sold to 11.4TWh, compared to 13.0TWh in 2008 (see Outages and plant utilisation levels).

In addition to power 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, LECs and sulphur dioxide ("SO₂") emissions allowances. In 2009, other revenues also include the post acquisition sales of Haven Power Limited ("Haven"). In the six months ended 30 June 2009, other revenues were £48 million compared to £25 million in 2008, with Haven contributing sales of £26 million.

Fuel costs in respect of generation during the six months ended 30 June 2009 were £370 million, compared to £413 million in 2008. The decrease was primarily due to lower generation, marginally offset by a small increase in the price of coal and other fuels (see Price of coal and other fuels and CO₂ emissions allowances) and Haven cost of sales.

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. The cost of power purchases is included within fuel costs. For the six months ended 30 June 2009, the cost of purchased power of £81 million was similar to the cost of £82 million incurred in 2008.

As a result of these factors, gross profit for the six months ended 30 June 2009 was £255 million compared to £307 million in 2008.

Other operating expenses were £105 million for the six months ended 30 June 2009 compared to £101 million in 2008. Operating expenses in 2009 include costs of £7 million incurred at Haven. We have made good progress with the initiatives put in place at the beginning of the year to carefully manage our cost base, and we remain on course to achieve our target of a reduction in underlying costs of £10 million for the year. In addition to Haven, 2009 operating expenses also include further planned investments to support our biomass procurement activities and growth strategy. These increases are offset by a reduction in underlying operating costs of £4 million for the six month period.

EBITDA for the six months ended 30 June 2009 was therefore £150 million compared to £206 million in 2008.

Depreciation and amortisation was £24 million for both the six months ended 30 June 2008 and 2009.

The Group recognises unrealised gains and losses on forward contracts which meet the definition of derivatives under IASs. 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. 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 2009 £m	Six months ended 30 June 2008 £m	Year ended 31 December 2008 £m
Net unrealised losses in balance sheet at beginning of the period	(15.7)	(236.7)	(236.7)
Unrealised (losses)/gains recognised in the income statement	(83.3)	(22.0)	56.3
Fair value gains/(losses) recognised in the hedge reserve (a component of equity)	341.3	(944.3)	164.7
Derivative financial instruments recognised on acquisition of subsidiary	4.0	–	–
Net unrealised gains/(losses) in balance sheet at end of the period	246.3	(1,203.0)	(15.7)

As a consequence of increases in power prices through the first six months of 2008, the average price relating to power that had been contracted but had yet to be delivered at 30 June 2008 was much lower than market prices at that time, driving the recognition of a net unrealised loss of £1,203 million in the balance sheet (included in captions described as derivative financial instruments). As a result of falling power prices over the last quarter of 2008, the difference narrowed considerably, resulting in a reduction in the net unrealised loss to £16 million at 31 December 2008. In the first six months of 2009 power prices continued to fall, such that the average price relating to power that had been contracted but had yet to be delivered at 30 June 2009 was much higher than market prices at that time, driving the recognition of a net unrealised gain of £246 million in the balance sheet. These trends in forward power prices, which largely determine the movements in our net unrealised gains/losses position, are described in Price of electricity below.

The unrealised losses recognised in the income statement of £83 million for the six months ended 30 June 2009 and £22 million in 2008 represent mark to market movements on a proportion of our derivative contracts which were not subject to hedge accounting. A loss on financial coal contracts of £52 million in 2009 includes unwinding unrealised gains recognised last year as the related coal has now been delivered. 2009 also includes an unrealised loss on forward foreign currency exchange contracts of £36 million, arising as a result of sterling's recent strength.

Mark to market movements on most of our derivative contracts, considered to be effective hedges, have been recognised through the hedge reserve, a component of shareholders' equity in the balance sheet. Movements in unrealised gains and losses recognised in the hedge reserve are mainly the result of unwinding mark to market positions relating to power 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 gain recognised through the hedge reserve in the six months ended 30 June 2009 was £341 million, compared to the net unrealised loss of £944 million in 2008, both reflecting the extreme volatility in forward power price trends described above.

In considering mark to market movements, it is important to recognise that EBITDA is driven by our strategy to deliver market level or better dark green spreads, not by the absolute price of electricity (or any other single commodity) at any given date.

Net finance costs for the six months ended 30 June 2009 were £10 million compared to £11 million in 2008, as a result of lower interest rates and debt levels.

The tax charge for the six months ended 30 June 2009 was £10 million, compared to £31 million in 2008. The tax charge in 2008 included a benefit of £12 million arising under the Group's previous financing structure (see Tax risk).

As a result of the above factors, profit attributable to equity shareholders for the six months ended 30 June 2009 was £24 million compared to £118 million in 2008, and basic and diluted earnings per share were 7 pence compared to 35 pence in 2008. Underlying profit attributable to equity shareholders (that is profit excluding the after tax impact of unrealised losses on derivative contracts) was £84 million for the six months ended 30 June 2009 compared to £134 million in 2008. Underlying basic and diluted earnings per share were 25 pence in 2009 compared to 39 pence in 2008.

Key factors affecting the business

General commodity market conditions

In the final quarter of last year we saw dark green spreads narrow and experienced significant falls in power, coal and CO₂ emissions allowances prices. During the first half of 2009 we have continued to experience challenging market conditions for coal-fired generators, with more falls in power prices driving a further contraction in spreads. These trends in forward power, coal and CO₂ emissions allowances prices are described further in the following paragraphs.

Price of electricity

The table below shows the average achieved electricity price we realised for the six months ended 30 June 2009 and 30 June 2008, together with the market closing price on the last day of each season illustrated.

	Six months ended 30 June 2009	Six months ended 30 June 2008
Average achieved price (£/MWh)	50.7	53.6
	2009	2008
Summer baseload market close (£/MWh)	36.4	56.0
	2008/2009	2007/2008
Winter baseload market close (£/MWh)	106.9	40.4

Average achieved price for the six months ended 30 June 2009 was £50.7 per MWh compared to £53.6 per MWh in 2008. Average capture price (being the price attained prior to Balancing Mechanism activity) for the six months ended 30 June 2009 was £49.8 per MWh compared to £52.9 per MWh in 2008. Although the market closing price for Winter 2008/2009 was £106.9/MWh when the season closed on 30 September 2008, the one month forward price for power had already fallen to £62.8 per MWh by 31 October 2008. The forward baseload power prices for Winter 2009/2010 and Summer 2010 were approximately £42.1 per MWh and £42.2 per MWh respectively as at 28 July 2009.

The reduction in average achieved price followed the impact of forward and near term sales secured in the last six months of 2008 and through the first six months of 2009, during which time power prices were generally decreasing relative to the levels of late 2007 and early 2008, for power now delivered in 2009.

Increasing power prices through the early part of 2008 followed strengthening oil and gas prices. High power prices were sustained in the third quarter with fears that outages, Large Combustion Plant Directive ("LCPD") constraints and delays in Flue Gas Desulphurisation ("FGD") installations at other UK plant might result in a capacity shortfall. Power price falls towards the end of last year followed weaker oil and gas prices. In addition, other plants returned to service, which allayed fears of a capacity shortfall, and demand began to fall in response to the economic climate.

The global gas market has been the dominant factor in driving UK power prices down further in 2009. Reducing demand has led to a global gas surplus, and, with storage for only a finite volume, the UK with its open market has become the consumer of last resort. Plentiful supply has consequently driven gas prices down and power prices on the back of those. In addition, good availability of UK generating capacity as well as around a 6% reduction in electricity demand compared to a year ago have put further pressure on power prices.

Price of coal and other fuels

We burnt approximately 4.2 million tonnes of coal in the six months ended 30 June 2009 compared to approximately 5.0 million tonnes in 2008. This coal was purchased from a variety of domestic and international sources under either fixed or variable priced contracts with different maturities.

Spot prices for internationally traded coal delivered into North-West Europe (as reflected by the TFS API 2 index) rose to record levels over the first half of 2008, reaching US\$218 per tonne by 30 June 2008. Price increases were driven by tight markets for both coal and freight, caused by strong demand from China, India and Japan, combined with some production and logistical issues also in China, as well as South Africa and Australia. However, spot coal prices fell significantly over the final quarter, down to US\$81 per tonne by 31 December 2008, as supply constraints eased in both the coal and freight markets. The fall in coal prices was partially offset by the depreciation of sterling against the US dollar through the second half of 2008.

Prices have remained fairly stable during 2009. There is downward pressure in the near term, with recession induced weaker demand causing over supply and higher stock levels, particularly in Europe. Upward pressure in the medium to long term reflects continued demand growth in China and anticipation of global economic recovery.

We also burn biomass, petcoke and fuel oil, although coal comprised around 90% of total fuel (by energy content) in the six months ended 30 June 2009 compared to 95% in 2008, primarily as a result of improved fuel diversity.

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. The average cost of fuel per MWh (excluding CO₂ emissions allowances) was £24.0 for the six months ended 30 June 2009, compared to £23.6 in 2008.

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 2009, including those allocated under the UK NAP, was approximately 9.9 million tonnes compared to approximately 10.8 million tonnes in 2008, as a result of lower generation and plant efficiency improvements.

The price of Phase II CO₂ emissions allowances began 2008 at approximately €22.4 per tonne, and in common with power and coal prices rose steadily over the first half of the year to €28.4 per tonne at 30 June 2008. However, carbon prices also fell significantly over the final quarter of 2008, down to €15.4 per tonne by 31 December 2008, as commodity prices fell back and industrial demand reduced in response to the economic climate. Prices continued to fall in the early part of 2009, but have subsequently stabilised (€13.1 per tonne at 30 June), with a reduction in industrial selling and Phase III 'banking' supporting Phase II prices.

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 expended for purchased CO₂ emissions allowances during the six months ended 30 June 2009 of £16.6 per tonne was similar to the cost of £16.5 per tonne in 2008.

Outages and plant utilisation levels

	Six months ended 30 June 2009	Six months ended 30 June 2008
Load factor (%)	69.3	78.2
Electrical output (net sales) (TWh)	11.4	13.0
Availability (%)	84.3	87.1
Forced outage rate (%)	8.6	4.9
Winter forced outage rate (%)	11.9	5.1
Planned outage rate (%)	7.7	8.5
Total outage rate ⁽¹⁾ (%)	15.7	12.9

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 2009 was 69.3% compared to 78.2% in 2008. The reduction arises from a decrease in electrical output (net sales) to 11.4TWh in 2009 compared with 13.0TWh in 2008. Commodity market conditions through Summer 2008 were such that it was profitable to generate additional volumes in what have historically been low margin periods, albeit

at moderate margins. Weaker market conditions in 2009, particularly since March, were such that although Drax remains at the top of the coal merit order and continues to maintain a high load factor relative to other coal-fired plant, depressed near term gas prices has left coal plant at the margin for Summer 2009. Plant availability was approximately 84% for the six months ended 30 June 2009 compared to 87% in 2008.

The forced outage rate and Winter forced outage rate for the six months ended 30 June 2009 were 8.6% and 11.9% respectively, compared to 4.9% and 5.1% in 2008. The higher forced outage rates reflect a one-off incident in the Winter quarter which was confined to a single generating unit. Following investigation we are confident that it was an isolated event and there are no indications that we will experience similar events in the future. During the second quarter, our forced outage rate was once again in line with our long term target.

The planned outage rate achieved for the six months ended 30 June 2009 was 7.7% compared to 8.5% in 2008, 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. This year we only have one unit undergoing a major planned outage, whereas two major planned outages were completed in both 2007 and 2008, with the second outage taking place largely in the third quarter.

Health and safety

Our lost time injury rate was 0.05 for the six months ended 30 June 2009 compared to 0.10 in 2008. Our safety record continues to compare favourably with our sector peers and international benchmarks.

Liquidity and capital resources

Senior secured debt was £338 million at 30 June 2009 compared to £370 million at 31 December 2008 and £388 million at 30 June 2008 (all before deferred finance costs). Cash and cash equivalents were £165 million as at 30 June 2009 compared to £130 million at 31 December 2008 and £42 million at 30 June 2008. An analysis of cash flows is set out in the following table.

Analysis of cash flows

	Six months ended 30 June 2009 £m	Six months ended 30 June 2008 £m
Cash generated from operations	104.1	233.6
Income taxes refunded/(paid)	51.0	(55.3)
Net interest paid	(6.5)	(10.9)
Net cash generated from operating activities	148.6	167.4
Net cash used in investing activities	(57.5)	(105.5)
Cash flows from financing activities		
Equity dividends paid	(130.0)	(60.1)
Proceeds on issue of equity	106.5	-
Repayment of borrowings	(32.5)	(17.5)
Purchase of own shares held by employee trust	(0.7)	(2.4)
Net cash used in financing activities	(56.7)	(80.0)
Net increase/(decrease) in cash and cash equivalents	34.4	(18.1)

Cash generated from operations was £104 million in the six months ended 30 June 2009 compared to £234 million in 2008. The decrease was a result of a reduction of £56 million in EBITDA, as described above, and a working capital outflow of £49 million in 2009 compared to an inflow of £28 million in 2008.

The working capital outflow of £49m in 2009 is driven by an increase in coal stocks of 0.7 million tonnes over the first six months, resulting from lower than expected generation. Last year's

working capital inflow of £28m included a significantly increased carbon accrual following the commencement of Phase II of the EUETS.

To improve our operating cash flow in 2009 we have closed-out a number of in-the-money foreign exchange contracts relating to fuel and CO₂ emissions allowances purchases for the period 2010 to 2012. This has resulted in additional EBITDA and cash generation of £30 million, with £5 million recognised in the six months ended 30 June 2009, and a further £25 million to follow in the second half of the year. New foreign exchange contracts have been entered into to hedge the foreign currency exposure of the relevant purchases.

Net income taxes refunded were £51 million in the six months ended 30 June 2009, compared to taxes paid of £55 million in 2008. Unwinding the Eurobond funding structure in December 2008 potentially reduced the 2008 tax liability to £nil, subject to HMRC agreement (see Tax risk). As a result we have now received a refund for payments on account made in respect of 2008.

Net cash used in investing activities includes payments in respect of capital expenditure of £46 million in both the six months ended 30 June 2009 and 2008 (see Capital expenditure). 2009 also includes the net acquisition costs for Haven of £11 million (see Acquisition of Haven), whereas 2008 includes purchases of short-term investments of £59 million, comprising cash deposits with a maturity of more than 3 months at inception.

Net cash used in financing activities was £57 million in the six months ended 30 June 2009 compared to £80 million in 2008. The 2009 amount includes equity dividends paid of £130 million, net proceeds from the issue of share capital of £107 million and term loan repayments of £33 million. The 2008 amounts included equity dividends paid of £60 million and a term loan repayment of £18 million. See Capital resources and refinancing for further information.

The increase in cash and cash equivalents was therefore £34 million in the six months ended 30 June 2009, compared to a decrease of £18 million in 2008. 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 repayments of £33 million during the period, senior secured debt was £338 million at 30 June 2009 (before deferred finance costs). Scheduled debt repayments are £33 million in the second half of 2009, under an amortisation profile which, prior to the refinancing, ended with a final repayment of £240 million on 31 December 2010.

On 23 June 2009, we announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised approximately £107 million and was undertaken to help maintain our investment grade debt rating, with the proceeds used to pay down debt. We believe the placing represented a sensible, prudent and cost-effective means of improving the resilience of our capital structure.

Furthermore, on 3 August 2009, we completed the refinancing of the remainder of our term loan facility and our £100m working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012 to coincide with the maturity of the £200m letter of credit facility, which remains in place. The revised final debt repayment of £135m in December 2010 will now be repaid in four equal instalments over the period to December 2012, at which point it will have been repaid in full.

The terms of the new facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The current margin on the existing facilities of 0.8% has also been increased to be consistent with the margin in the new agreement.

We acknowledge recent 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 existing facilities. We also have 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 financial statements.

Seasonality of borrowing

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

Accordingly, cash flow during the Summer months is materially reduced due to the combined effect of lower prices and output, while maintenance expenditures are increased during this period due to major planned outages. The Group's £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 2009 and now has a final maturity date of December 2012.

Acquisition of Haven

On 6 March 2009 we announced that, in line with our strategy to extend the Group's trading capabilities and options for routes to market, we had reached agreement with Welsh Power Group Limited to acquire Haven, an electricity supply company serving business customers. The net cash consideration was £11 million (representing £12 million cash paid less £1 million cash balances acquired), which included a power trading book position worth £4.0 million, reflecting its current mark to market value. Goodwill of £11 million arose on the acquisition.

Haven currently supplies electricity to around 19,000 small and medium sized businesses, equating to some 0.7TWh per year. Haven provides another route to market for electricity generated by the Group, not only in terms of volume but also, importantly, through securing term contracts with customers. This additional ability to secure term hedges complements our existing trading strategy.

Haven is now fully integrated within the Drax business and is performing in line with our expectations. In addition, although currently small in the overall context of Drax, we believe Haven has the capacity to grow significantly from its existing customer base.

Capital expenditure

Fixed asset additions were £46 million in the six months ended 30 June 2009 compared to £41 million in 2008. This includes expenditure of £29 million in 2009 (£16 million in 2008) on our two major strategic carbon abatement projects: the turbine upgrade and investments to extend our biomass co-firing capability, which both remain on schedule and in line with budget.

In relation to the turbine upgrade project, we expect to invest around £100 million over the five-year period from 2007 to 2011 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 current baseload efficiency of around 38%. When complete, the project is expected to deliver annual savings of one 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 halfway 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 half a million tonnes per year.

With regard to extending our biomass capability, we are investing around £80 million to develop a 400MW direct injection biomass co-firing facility. The necessary processing and handling infrastructure will be installed to enable us to handle an additional one and a half million tonnes of biomass material per annum. Alongside our existing, through-the-mill delivery, co-firing capacity of

100MW, the facility will provide us with a total co-firing capacity of 500MW. When complete, this is expected to result in savings of over two and a half million tonnes of CO₂ emissions allowances, the displacement of approximately one and a quarter million tonnes of coal and the generation of in excess of one and a half million ROCs per annum.

In April 2009 we awarded the final contract for the 400MW biomass co-firing project to C Spencer Limited, for the design and build of the rail unloading equipment, and biomass bulk storage and handling systems to feed the direct injection systems. We anticipate commissioning phase one of the project towards the end of 2009, with achievement of the full 400MW capacity around the middle of 2010.

We continue to develop our biomass procurement strategy, and have now executed long term contracts for the majority of our co-firing requirements. We firmly believe in procuring biomass from sustainable sources and to this end we have established a sustainable sourcing policy framework. To support compliance with that policy, we have also recently conducted independent third party sustainability audits for the first long term biomass contracts.

As part of our development of biomass supply sources, we have built a pellet plant for the production of pellets from locally sourced straw in Goole, approximately three miles from the Drax site. The plant will take straw from the local area and produce around 100,000 tonnes of straw pellets annually, to be brought to Drax for combustion in the co-firing facility. Commissioning of the plant is now underway.

Processing facilities, such as pellet plants, provide a secure and cost effective supply of biomass. Based on the success of our first pellet plant in Goole, we are now developing plans for additional biomass pellet plants.

We will also continue to evaluate other investment opportunities which may result in additional capital expenditure. Further investment will be required beyond 2009 and prior to 2016 to meet the requirements of the LCPD and Industrial Emissions Directive ("IED").

Biomass growth strategy

Under a Joint Development Agreement with Siemens Project Ventures GmbH, we intend to build, own and operate three 300MW dedicated biomass-fired power plants in the UK. Current estimates of the total capital cost of this business are around £2 billion, including investments in ancillary biomass logistics and processing facilities.

Drax will manage and operate the biomass plants, and will also be responsible for all biomass procurement and trading. It is proposed that the plants will use Siemens' turbine technology. We are reviewing the capital structure under which these investments will be funded given recent guidance from Standard & Poor's. This capital structure work is an integral part of the development of the business.

We are now in the advanced feasibility stage of developing and planning, but we will only commit to investment once it can be plainly demonstrated that we will secure attractive returns. Whilst no commitments to construction contracts or financing have been made to date, we expect to finalise these arrangements and present the investment case for the first plant towards the end of 2010. We do not expect to incur any significant capital expenditure in 2009 in developing this business.

Since our preliminary results announcement in early March 2009, the development has progressed in line with our project timetable. We have selected three sites, all with secure grid connection dates in line with our development schedule. The preliminary engineering and design work has also been completed, and we have commenced the engineering, procurement and construction contract tendering process, which should conclude in the second half of 2010. Last month we submitted our application for section 36 consent to the Government's Department of Energy and Climate Change for the Drax site development. We expect to submit applications for the remaining two sites before the end of the year.

We believe that the long-term investment case for this business remains strong, particularly in the light of the UK's need for reliable renewable generation capacity by 2020.

Related party transactions

There have been no material changes to the related party transactions described in the 2008 annual report.

Principal risks and uncertainties

We manage the commercial and operational risks faced by the Group in accordance with policies approved by the Board.

Regulatory market risk

The UK Government and other relevant regulatory bodies have significantly changed the applicable regulatory regimes in Great Britain over the past few years, in an attempt to improve market information and transparency, enhance competition and liquidity, reduce the likelihood of market abuse and implement new EU legislation. In particular, new UK and EU legislation applicable to our sector continues to target reductions in emissions. We are exposed to further regulatory developments, which may favour other types of fuel or sources of power, and which could result in additional costs or lower output levels and reduce our profitability.

Plant operating risk

Extended forced outages or prolonged planned outages could have a significant adverse effect on our revenue and profitability. We may also incur additional costs in recovering from these outages, and penalties if we cannot fulfil our contractual obligations.

Forced outages may be caused by the underperformance or outright failure of our power generation plant, or other equipment and components including the information technology systems used to operate the plant or conduct trading activities. The duration of forced outages is influenced by the lead time to manufacture and procure replacement components and to carry out repairs. Although we always try to optimise our holding of spare components for use in the event of plant failure, we may not always have ready access to the relevant replacement parts.

Environmental and health and safety risks

The EU, UK and local environmental and health and safety laws and regulations which affect the power station are complex, frequently changing and are becoming ever more stringent. They cover many aspects of our operations, including limits on emissions of particulate, oxides of sulphur, oxides of nitrogen, discharges to air and water, noise emissions, soil/groundwater contamination, waste and landfill taxes and health and safety standards.

Changes in these laws and regulations may cause increased compliance costs, the need for additional capital expenditure and could affect output levels. Whilst we have robust systems in place to support and monitor compliance with these regulations, failure to do so could result in fines or penalties, civil or criminal liability, or even the limitation or suspension of operations.

Electricity market liquidity risk

Liquidity in the market for wholesale electricity is dependent on there being a sufficient number of counterparties willing to trade actively. Changes in the market structure or consolidation of the existing generation and supply businesses in the UK could result in a reduction in the number of active participants in the market with whom we are able to trade.

If we are not able to rely on wholesale market trading as a means of hedging our short to medium-term exposure to electricity prices, it may affect our ability to sell all of our output and/or the prices at which we sell it. As a result we could suffer reduced revenues and incur higher costs to achieve our trading objectives.

Ratings risk

The historic high volatility of market prices for electricity exacerbates liquidity risk because some counterparties may request credit support following increases in market prices. We mitigate this risk primarily by selling power using bilateral agreements under which we are not required to provide additional credit support to counterparties, so long as the Group's debt retains an investment grade rating from either Standard & Poor's or Moody's.

Our debt is currently rated as investment grade by Standard & Poor's. Loss of our investment grade debt rating could require Drax to post collateral for our current and future trading positions and leave the Group more exposed to volatility in commodity markets.

Commodity risk

We are exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, the price of coal (and other fuels) and the price of CO₂ emissions allowances. Price variations and market cycles have historically influenced our results and are expected to continue to do so.

Our policy is to make forward power sales with corresponding purchases of fuel and CO₂ emissions allowances when profitable to do so. We purchase coal under either fixed or variable priced contracts with different maturities from a variety of domestic and international sources. We purchase CO₂ emissions allowances under fixed price contracts with different maturity dates from a variety of domestic and international sources.

Counterparty risk

As we rely on third-party suppliers for the delivery of coal and other goods and services, we are exposed to the risk of non-performance by these third-party suppliers.

We purchase a significant portion of our coal requirement under contracts with a number of UK suppliers. There is a risk that if a large supplier falls into financial difficulty and/or fails to deliver against the contracts, there would be additional costs associated with securing coal from other suppliers.

We enter into fixed price and fixed margin contracts for the sale of electricity to a number of counterparties. The failure of one or more of these counterparties to perform their contractual obligations may cause us financial distress or increase our risk profile.

The investment of surplus cash is undertaken to maximise the return within Board approved policies. These policies set out minimum rating requirements, maximum investment with any one counterparty and the maturity profile.

Interest rate risk

We are exposed to interest rate risk principally in relation to our outstanding bank debt. In particular, we are exposed to changes in the LIBOR interest rate of sterling denominated debt, as all of our debt is both denominated in sterling and has a variable LIBOR rate. We mitigate this risk with interest rate hedges on a proportion of our debt facilities.

Foreign currency risk

Foreign currency exchange contracts are entered into to hedge substantially all of our fixed price international coal purchases in US dollars, our biomass purchases in US dollars and euros and our CO₂ emissions allowances purchases in euros.

Tax risk

Under the Group's previous financing structure, Drax Holdings Limited (a subsidiary company) was partially funded by a Eurobond payable to another group company. The whole of the coupon was previously prepaid, and an accounting based tax deduction has been claimed for the corresponding interest charged in the Drax Holdings Limited income statement each year. Were HMRC to successfully challenge the deductions claimed in respect of the Eurobond coupons for open years to 31 December 2008, it is estimated that the additional tax liability would be up to £90

million, together with interest and penalties. Further details of the structure are included on pages 78 and 79 of the listing particulars issued on 28 October 2005 in respect of the introduction of Drax Group plc to the Official List of the UK Listing Authority.

In November/December 2008, HMRC issued draft legislation concerning the “Principles based approach to financial products avoidance” and the “Taxation of foreign profits of companies”. These provisions updated rules on, amongst other things, the tax deductibility of interest and were generally expected to reduce the tax effectiveness of the Eurobond financing arrangements.

Following consultation with leading tax counsel and after taking professional advice, we decided to unwind the Eurobond financing arrangements. The Eurobond was formally waived by the lending group company on 30 December 2008. As a result the whole of the remaining prepaid coupon was charged in the Drax Holdings Limited income statement giving rise to potential additional interest deductions with a tax effect of around £220 million. Because of the risks related to the unwind of the Eurobond structure, no income statement benefit will be recognised in the Group’s financial statements with respect to the potential additional deductions until we are more certain they will be realised. However, we have now received a refund for income tax payments on account made in respect of 2008 (see Liquidity and capital resources), although the related tax computations remain subject to HMRC agreement.

Positions under contract for 2009, 2010 and 2011

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 or better 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 12 June 2009, the positions under contract for 2009, 2010 and 2011 were as set out below. There have been no material changes to our positions under contract since 12 June 2009.

	2009	2010	2011
Power sales (TWh) comprising:	22.7	20.5	11.8
– Fixed price power sales (TWh) at an average achieved price (per MWh)	20.0 at £50.4	14.4 at £54.6	6.1 at £60.3
– Fixed margin power sales (TWh)	2.7	6.1	5.7
CO ₂ emissions allowances hedged, including UK NAP allocation, market purchases, structured contracts, and benefit of biomass co-firing (TWh equivalent)	22.6	20.6	17.8
Solid fuel at fixed price/hedged, including structured contracts (TWh equivalent)	21.4	21.1	11.4

Fixed price power sales include approximately 2.6TWh supplied to Centrica in the period 1 January 2009 to 12 June 2009 under the five-and-a-quarter year baseload contract with Centrica which commenced on 1 October 2007. Fixed margin power sales include approximately 2.7TWh in 2009 and 5.3TWh in each of 2010 and 2011 in connection with the contract.

Under this contract we will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO₂ emissions allowances amounting to approximately 4.8 million tonnes per annum. The contract provides Drax with a series of fixed dark green spreads which were agreed in the first quarter of 2006.

Distributions

Distribution policy

We notified investors of a change to our distribution policy when we announced our biomass growth strategy in October 2008. With respect to 2009, the Company will distribute all excess cash generated from operations after meeting business requirements in the year. 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.

Dividends paid

On 2 March 2009, the Board resolved, subject to approval by shareholders at the Annual General Meeting on 28 April 2009, to pay a final dividend for the year ended 31 December 2008 of 38.3 pence per share (£130 million). The final dividend was subsequently paid on 22 May 2009.

Dividends proposed

On 3 August 2009, the Board resolved to pay an interim dividend for the six months ended 30 June 2009 of 4.1 pence per share (£15 million). The interim dividend will be paid on 7 October 2009 and shares will be marked ex-interim dividend on 16 September 2009.

This Business and financial review was approved by the Board on 3 August 2009.

Tony Quinlan
Finance Director
3 August 2009

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

Tony Quinlan
Finance Director

3 August 2009

Condensed consolidated income statements

	Notes	Six months ended	Year ended	
		30 June	31 December	
		2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (Audited) £m
Continuing operations				
Revenue		706.9	801.8	1,752.8
Fuel costs		(451.5)	(495.1)	(1,070.2)
		255.4	306.7	682.6
Other operating expenses		(128.7)	(124.2)	(274.8)
Unrealised (losses)/gains on derivative contracts		(83.3)	(22.0)	56.3
Operating profit		43.4	160.5	464.1
Interest payable and similar charges		(11.0)	(14.8)	(28.8)
Interest receivable		1.4	3.8	7.2
Profit before tax		33.8	149.5	442.5
Tax charge	5	(10.3)	(31.3)	(109.6)
Profit for the period attributable to equity shareholders from continuing operations		23.5	118.2	332.9
Earnings per share from continuing operations				
		Pence per share	Pence per share	Pence per share
– Basic and diluted	6	7	35	98

Condensed consolidated statements of recognised income and expense

	Six months ended 30 June	Year ended 31 December	
	2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (Audited) £m
Profit for the period	23.5	118.2	332.9
Actuarial losses on defined benefit pension scheme	(22.8)	(10.8)	(12.9)
Deferred tax on actuarial losses on defined benefit pension scheme	6.4	3.0	3.6
Fair value gains/(losses) on cash flow hedges	341.3	(944.3)	164.7
Deferred tax on cash flow hedges	(95.5)	263.5	(47.4)
Net gains/(losses) recognised in equity	229.4	(688.6)	108.0
Total recognised income/(expense) for the period attributable to equity shareholders	252.9	(570.4)	440.9

Condensed consolidated balance sheets

		As at 30 June	As at 31 December	
	Notes	2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (Audited) £m
Assets				
Non-current assets				
Property, plant and equipment		1,161.8	1,097.6	1,135.7
Goodwill	12	10.7	–	–
Derivative financial instruments		137.8	50.4	105.5
Deferred tax asset		–	72.0	–
		1,310.3	1,220.0	1,241.2
Current assets				
Inventories		217.8	125.5	189.5
Trade and other receivables		136.8	165.6	259.9
Derivative financial instruments		342.2	124.0	286.5
Short-term investments		–	59.0	–
Cash and cash equivalents		164.6	41.6	130.2
		861.4	515.7	866.1
Liabilities				
Current liabilities				
Financial liabilities:				
– Borrowings	8	14.9	12.4	14.9
– Derivative financial instruments		211.3	750.8	337.1
Trade and other payables		158.2	167.8	295.0
Current tax liabilities		133.5	53.4	49.4
		517.9	984.4	696.4
Net current assets/(liabilities)		343.5	(468.7)	169.7
Non-current liabilities				
Financial liabilities:				
– Borrowings	8	319.0	368.5	350.0
– Derivative financial instruments		22.4	626.9	70.6
Deferred tax liabilities		341.9	–	273.8
Retirement benefit obligations		42.2	20.5	20.6
Other non-current liabilities		–	2.0	–
Provisions		5.6	2.5	2.6
		731.1	1,020.4	717.6
Net assets/(liabilities)		922.7	(269.1)	693.3
Shareholders' equity				
Issued equity	9	42.1	39.2	39.2
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	10	201.8	(842.1)	(44.0)
Retained losses		(454.2)	(599.2)	(434.9)
Total shareholders' equity/(deficit)		922.7	(269.1)	693.3

Condensed consolidated reconciliations of movements in equity

	Share capital £m	Capital redemption reserve £m	Share premium £m	Merger reserve £m	Hedge reserve £m	Retained losses £m	Total £m
At 1 January 2008	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0
Profit for the year	–	–	–	–	–	332.9	332.9
Equity dividends paid	–	–	–	–	–	(110.0)	(110.0)
Actuarial losses on defined benefit pension scheme	–	–	–	–	–	(12.9)	(12.9)
Deferred tax on actuarial losses on defined benefit pension scheme	–	–	–	–	–	3.6	3.6
Fair value gains on cash flow hedges	–	–	–	–	164.7	–	164.7
Deferred tax on cash flow hedges	–	–	–	–	(47.4)	–	(47.4)
Movement in equity associated with share-based payments	–	–	–	–	–	3.8	3.8
Own shares held by employee trust	–	–	–	–	–	(0.6)	(0.6)
Own shares purchased and vested with employees	–	–	–	–	–	(1.8)	(1.8)
At 31 December 2008	39.2	1.5	420.7	710.8	(44.0)	(434.9)	693.3
At 1 January 2008	39.2	1.5	420.7	710.8	(161.3)	(649.9)	361.0
Profit for the period	–	–	–	–	–	118.2	118.2
Equity dividends paid	–	–	–	–	–	(60.1)	(60.1)
Actuarial losses on defined benefit pension scheme	–	–	–	–	–	(10.8)	(10.8)
Deferred tax on actuarial losses on defined benefit pension scheme	–	–	–	–	–	3.0	3.0
Fair value losses on cash flow hedges	–	–	–	–	(944.3)	–	(944.3)
Deferred tax on cash flow hedges	–	–	–	–	263.5	–	263.5
Movement in equity associated with share-based payments	–	–	–	–	–	2.8	2.8
Own shares held by employee trust	–	–	–	–	–	(0.6)	(0.6)
Own shares purchased and vested with employees	–	–	–	–	–	(1.8)	(1.8)
At 30 June 2008	39.2	1.5	420.7	710.8	(842.1)	(599.2)	(269.1)
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
Issue of share capital	2.9	–	–	–	–	103.6	106.5
Equity dividends paid	–	–	–	–	–	(130.0)	(130.0)
Actuarial losses on defined benefit pension scheme	–	–	–	–	–	(22.8)	(22.8)
Deferred tax on actuarial losses on defined benefit pension scheme	–	–	–	–	–	6.4	6.4
Fair value gains on cash flow hedges	–	–	–	–	341.3	–	341.3
Deferred tax on cash flow hedges	–	–	–	–	(95.5)	–	(95.5)
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

Condensed consolidated cash flow statements

	Notes	Six months ended		As at
		2009 (Unaudited) £m	30 June 2008 (Unaudited) £m	31 December 2008 (Audited) £m
Cash generated from operations	11	104.1	233.6	430.8
Income taxes refunded/(paid)		51.0	(55.3)	(102.2)
Interest paid		(8.4)	(13.4)	(25.9)
Interest received		1.9	2.5	6.8
Net cash generated from operating activities		148.6	167.4	309.5
Cash flows from investing activities				
Purchase of property, plant and equipment		(46.4)	(46.5)	(91.4)
Purchase of current asset investments		–	(59.0)	–
Acquisition of subsidiary	12	(11.1)	–	–
Net cash used in investing activities		(57.5)	(105.5)	(91.4)
Cash flows from financing activities				
Equity dividends paid	7	(130.0)	(60.1)	(110.0)
Proceeds on issue of equity		106.5	–	–
Repayment of borrowings	8	(32.5)	(17.5)	(35.0)
Purchase of own shares held by employee trust		(0.7)	(2.4)	(2.6)
Net cash used in financing activities		(56.7)	(80.0)	(147.6)
Net increase/(decrease) in cash and cash equivalents		34.4	(18.1)	70.5
Cash and cash equivalents at beginning of the period		130.2	59.7	59.7
Cash and cash equivalents at end of the period		164.6	41.6	130.2

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 1985. Drax Group plc and its subsidiaries (together the “Group”) operate in the electricity generation industry within the UK. The address of Drax Group plc’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 2008 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 and did not contain statements under Section 237(2) or (3) of the Companies Act 1985.

The condensed consolidated financial statements were approved by the Board on 3 August 2009.

Adoption of new and revised accounting standards

In the current financial year the following standards have become applicable:

- IFRS 8 “Operating segments” – effective for accounting periods beginning on or after 1 January 2009
- IAS 23 “Borrowing costs” – effective for costs incurred from 1 January 2009
- IFRS 2 “Share-based payment” – revision effective for accounting periods beginning on or after 1 January 2009
- IAS 1 “Presentation of financial statements” – revision effective for accounting periods beginning on or after 1 January 2009

With the exception of IAS 23 “Borrowing costs”, the adoption of these standards in the current or future periods will have no material impact on the financial statements of the Group. IAS 23 is expected to impact the treatment of any borrowing costs incurred on the construction of any new plant, with such costs being capitalised as part of the construction cost.

3. Significant accounting policies

The accounting policies adopted are consistent with those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2008.

4. Segmental reporting

Turnover comprises primarily sales of electricity generated by the Group to the electricity wholesale market in Great Britain. As such, the Group has only one business segment and one geographical segment.

Total revenue for the six months ended 30 June 2009 includes £112 million (2008: £155 million) for one customer, principally for power provided under a fixed margin contract.

5. Taxation

The income tax expense reflects the estimated effective tax rate on profit before taxation for the Group for the six months ended 30 June 2009 and the movement in the deferred tax balance in the period, so far as it relates to items recognised in the income statement.

The Finance Act 2008 introduced the withdrawal of industrial buildings allowances, and accordingly tax for the year ended 31 December 2008 includes an additional deferred tax charge of £9 million to reflect the estimated impact of loss of tax base in April 2011.

	Six months ended 30 June	Year ended 31 December
	2009 (Unaudited) £m	2008 (Audited) £m
Tax charge comprises:		
Current tax	33.3	81.2
Deferred tax:		
– Before impact of changes in tax legislation	(23.0)	19.6
– Impact of withdrawal of industrial buildings allowances	–	8.8
	10.3	109.6

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 under Tax risk in the Business and financial review within this report.

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
	2009 (Unaudited) £m	2008 (Audited) £m
Earnings:		
Earnings attributable to equity holders of the Company for the purposes of basic and diluted earnings	23.5	332.9

	Six months ended 30 June	Year ended 31 December
	2009 (Unaudited)	2008 (Audited)
Number of shares:		
Weighted average number of ordinary shares for the purposes of basic earnings per share (millions)	340.4	339.3
Effect of dilutive potential ordinary shares under share options	-	0.3
Weighted average number of ordinary shares for the purposes of diluted earnings per share (millions)	340.4	339.6
Earnings per share – basic and diluted (pence)	7	98

7. Dividends

	Six months ended 30 June	Year ended 31 December	
	2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (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 2007 of 9.9 pence per share paid 7 May 2008	-	33.6	33.6
Special interim dividend for the year ended 31 December 2007 of 7.8 pence per share paid 7 May 2008	-	26.5	26.5
Interim dividend for the year ended 31 December 2008 of 5.0 pence per share paid 8 October 2008	-	-	17.0
Special interim dividend for the year ended 31 December 2008 of 9.7 pence per share paid 8 October 2008	-	-	32.9
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid 22 May 2009	130.0	-	-
	130.0	60.1	110.0

	Six months ended 30 June	Year ended 31 December	
	2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (Audited) £m
Amounts not recognised as distributions to equity holders in the period:			
Declared interim dividend for the six months ended 30 June 2009 of 4.1 pence per share (2008: 5.0 pence per share paid 8 October 2008)	15.0	17.0	-
Special interim dividend for the six months ended 30 June 2008 of 9.7 pence per share paid 8 October 2008	-	32.9	-
Final dividend for the year ended 31 December 2008 of 38.3 pence per share paid 22 May 2009	-	-	130.0
	15.0	49.9	130.0

On 3 August 2009 the Board resolved to pay an interim dividend for the six months ended 30 June 2009 of 4.1 pence per share (equivalent to approximately £15 million) on 7 October 2009. The interim dividend of 4.1 pence per share has not been included as a liability as at 30 June 2009.

8. Financial liabilities – borrowings

	2009 (Unaudited) £m	As at 30 June 2008 (Unaudited) £m	As at 31 December 2008 (Audited) £m
Term loans (net of deferred finance costs):			
Current	14.9	12.4	14.9
Non-current	319.0	368.5	350.0
	333.9	380.9	364.9

Debt service payments are made semi-annually on 30 June and 31 December. Payment profiles for repayment of debt set out above are based on the fixed minimum repayment profile before the refinancing completed on 3 August 2009 and described below. Repayments above the fixed minimum repayment profile are permitted subject to the amount of cash available for debt service.

£32.5 million of the term loans was repaid on 30 June 2009. During the previous year term loan repayments of £17.5 million were made on each of 30 June 2008 and 31 December 2008. All repayments have been made in line with the target repayment profile as a result of the levels of cash available for debt service.

£105 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 remainder of its term loan facility and the £100m working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012 to coincide with the maturity of the £200m letter of credit facility, which remains in place. The revised final debt repayment of £135m in December 2010 will now be repaid in four equal instalments over the period to December 2012, at which point it will have been repaid in full.

The terms of the new facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The current margin on the existing facilities of 0.8% has also been increased to be consistent with the margin in the new agreement.

9. Called up share capital

	2009 (Unaudited) £m	As at 30 June 2008 (Unaudited) £m	As at 31 December 2008 (Audited) £m
Authorised:			
865,238,823 ordinary shares of £0.11 ¹⁶ / ₂₉ each	100.0	100.0	100.0
Issued and fully paid:			
30 June 2009 – 364,853,890 ordinary shares of £0.11 ¹⁶ / ₂₉ each	42.1	-	-
30 June 2008 – 339,397,000 ordinary shares of £0.11 ¹⁶ / ₂₉ each	-	39.2	-
31 December 2008 – 339,398,968 ordinary shares of £0.11 ¹⁶ / ₂₉ each	-	-	39.2
	42.1	39.2	39.2

The movement in allotted and fully paid share capital of the Company during each period was as follows:

	2009 (Unaudited) Number	Six months ended 30 June 2008 (Unaudited) Number	Year ended 31 December 2008 (Audited) Number
At beginning of the period	339,398,968	339,397,000	339,397,000
Issued under employee share schemes	–	–	1,968
Issue of share capital	25,454,922	–	–
At end of the period	364,853,890	339,397,000	339,398,968

Issue of share capital

On 23 June 2009, the Group announced the placing of approximately 25.5 million new ordinary shares, representing 7.5% of the Group's existing issued ordinary share capital. The placing raised £106.5 million and was undertaken to help maintain the Group's investment grade debt rating, with the proceeds used to pay down debt on 31 July 2009.

The placing shares have been credited as fully paid and rank equally in all respects with the existing ordinary shares of 11¹⁶/₂₉ pence each in the capital of the Company, including the right to receive all dividends and other distributions declared, made or paid in respect of such shares after the date of issue of the placing shares.

The share placing was achieved through a 'cash box' placing arrangement. The benefit of a cash box placing arrangement is that it is legally structured to enable the merger relief criteria within the Companies Act 1985 to apply. Accordingly the funds raised in excess of the nominal value of the shares issued have been treated as distributable within retained reserves rather than credited to the share premium account. As a consequence, of the £106.5 million funds raised, share capital increased by £2.9 million, and the balance of £103.6 million reduced the Group's retained losses in the period to 30 June 2009.

Issued under employee share schemes

During the six months ended 30 June 2008, the Group issued 1,968 ordinary shares of 11¹⁶/₂₉ pence each in satisfaction of share options which were exercised in accordance with the rules of the Group's savings related share option plan. There have been no such issues so far in 2009.

The Company has only one class of ordinary shares, which carry no right to fixed income. No shareholders have waived their rights to dividends.

10. Hedge reserve

The Group's cash flow hedges relate to commodity contracts, principally commitments to sell power, 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 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 30 June 2008 (Unaudited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	413.0	301.2	131.6	845.8
Interest rate swaps	(1.7)	(1.4)	(0.6)	(3.7)
	411.3	299.8	131.0	842.1

	As at 31 December 2008 (Audited)			
	Within 1 year £m	1–2 years £m	>2 years £m	Total £m
Commodity contracts	67.4	(9.1)	(18.0)	40.3
Interest rate swaps	2.7	1.0	-	3.7
	70.1	(8.1)	(18.0)	44.0

11. Cash flow from operating activities

	Six months ended 30 June		Year ended 31 December
	2009 (Unaudited) £m	2008 (Unaudited) £m	2008 (Audited) £m
Continuing operations			
Profit for the period	23.5	118.2	332.9
Adjustments for:			
Interest payable and similar charges	11.0	14.8	28.8
Interest receivable	(1.4)	(3.8)	(7.2)
Tax charge	10.3	31.3	109.6
Depreciation	23.5	23.5	46.2
Unrealised losses/(gains) on derivative contracts	83.3	22.0	(56.3)
Defined benefit pension scheme charge	2.6	-	4.1
Non-cash charge for share-based payments	1.4	2.8	3.8
Operating cash flows before movement in working capital	154.2	208.8	461.9
Changes in working capital:			
Increase in inventories	(28.3)	(17.2)	(81.2)
Decrease/(increase) in receivables	132.2	(35.1)	(130.3)
(Decrease)/ increase in payables	(153.2)	80.8	190.1
Defined benefit pension scheme contributions	(3.8)	(3.8)	(9.9)
Increase in provisions	3.0	0.1	0.2
Cash generated from operations	104.1	233.6	430.8

12. Business combinations

On 6 March 2009, the Group acquired 100% of the share capital of Haven Power Limited (“Haven”), an electricity supply business serving business customers, in line with its strategy to extend its trading capabilities and options for routes to market.

Haven contributed revenues of £25.5 million to the Group for the period from 6 March 2009 to 30 June 2009. If the acquisition had been completed on 1 January 2009, consolidated revenues for the period would have been £721 million. This information is provided for comparative purposes only and does not necessarily reflect the actual results that would have occurred, nor is it necessarily indicative of future results of operations of the combined companies.

The attributed fair values of the identifiable assets and liabilities of Haven and the corresponding carrying amounts immediately before acquisition are detailed below. These values are provisional.

	Book value £m	Fair value £m
Recognised amounts of identifiable assets acquired and liabilities assumed		
Cash and cash equivalents	0.9	0.9
Trade and other receivables	9.6	9.6
Property, plant and equipment	1.2	1.2
Trade and other payables	(12.7)	(12.7)
Derivative financial instruments	-	4.0
Deferred tax liabilities on derivative financial instruments	-	(1.1)
	(1.0)	1.9
Goodwill		10.7
Fair value of consideration transferred		
Cash paid		12.0
Directly attributable costs		0.6
		12.6
<hr/>		
		£m
Purchase consideration settled in cash		(12.0)
Cash and cash equivalents in subsidiary acquired		0.9
Cash outflow on acquisition		(11.1)

The fair value adjustments reflect the mark to market value of Haven’s short term power trading book position at acquisition, and the related deferred tax. No other fair value adjustments were identified.

The goodwill of £10.7 million is attributable to various features of the business, including the ability to secure term power sales, which compliments Drax’s existing trading strategy, and its capacity to grow significantly from its existing customer base.

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 2009 which comprises the condensed consolidated income statements, the condensed consolidated statements of recognised income and expense, the condensed consolidated balance sheets, the condensed consolidated reconciliations of movements in equity, the condensed consolidated cash flow statements 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 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 2009 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

3 August 2009

London, UK

Glossary

Ancillary services

Services provided by 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 period during 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

Contract 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 (that is avoiding the pulverising mills) to the burners situated in the boiler walls.

EBITDA

Profit before interest, tax, depreciation, amortisation, and unrealised gains/ (losses) on derivative contracts.

EU ETS

The EU Emissions Trading Scheme is a mechanism policy 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 The National Grid Company used to maintain system frequency.

Group

Drax Group plc and its subsidiaries.

IASs

International Accounting Standards.

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 calculated on the following basis (number of accidents x 100,000)/hours worked. Accidents 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 budget set at the outset of the year.

Planned Outage Rate

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

Power exchange trades

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

Power revenues

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

ROCs

Renewables Obligation Certificates.

Summer

The calendar months April to September.

Summer baseload market close

Market price on the last day that the season was traded as a product.

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.

UK NAP

UK National Allocation Plan.

Winter

The calendar months October to March.

Winter baseload market close

Market price on the last day that the season was traded as a product.