29 July 2020

DRAX GROUP PLC (Symbol: DRX)

HALF YEAR RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2020

Robust performance, delivering for stakeholders, progressing biomass strategy

Six months ended 30 June	H1 2020	H1 2019
Key financial performance measures		
Adjusted EBITDA (£ million)(1)(2)	179	138
Cash generated from operations (£ million)	226	229
Net debt (£ million)(3)	792	924
Interim dividend (pence per share)	6.8	6.4
Adjusted basic earnings per share (pence)(1)	10.8	2.0
Total financial performance measures		
Coal obsolescence charges	(224)	-
Operating (loss) / profit (£ million)	(32)	34
(Loss) / profit before tax (£ million)	(61)	4
Basic (loss) / earnings per share (pence)	(14.0)	1.0

Financial highlights

- Group Adjusted EBITDA up 30% to £179 million (H1 2019: £138 million)
  - Includes estimated £44 million impact of Covid-19, principally in Customers SME business
  - £34 million of capacity payments (H1 2019: nil) following re-establishment of the Capacity Market
  - Strong biomass performance in both Pellet Production and Generation
- Strong cash generation and balance sheet
  - £694 million of cash and total committed facilities
  - Extended £125 million ESG CO_2 emission-linked facility to 2025
  - DBRS investment grade rating
- Sustainable and growing dividend
  - Expected full year dividend up 7.5% to 17.1 pence per share (2019: 15.9 pence per share), subject to good operational performance and impact of Covid-19 being in line with current expectations
  - Interim dividend of 6.8 pence per share (H1 2019: 6.4 pence per share) – 40% of full year

Operational highlights

- Biomass self-supply – 9% reduction in cost, 15% increase in production and improved quality vs. H1 2019
- Generation – 11% of UK's renewable electricity, strong operational performance and system support services
- Customers – lower demand and an increase in bad debt provisions, principally in SME business

Progressing plans to create a long-term future for sustainable biomass

- Targeting five million tonnes of self-supply at £50/MWh(4) by 2027 from expanded sources of sustainable biomass
  - Plan for $64 million ($35/t, £13/MWh(4)) annual savings on 1.85Mt by 2022 vs. 2018 base
  - Investment in new satellite plants in US Gulf – targeting 20% reduction in pellet cost versus current cost
- BECCS(5) – developing proven and emerging technology options for large-scale negative emissions
- End of coal operations – further reduction in CO_2 emissions and lower cost operating model for biomass

Outlook

- Full year Adjusted EBITDA, inclusive of c.£60 million estimated impact of Covid-19, in line with market consensus
- Evaluating attractive investment options for biomass growth: cost reduction and capacity expansion
- Strong contracted power sales (2020–2022) 34TWh at £51.4/MWh and high proportion of non-commodity revenues

Will Gardiner, CEO of Drax Group said: "With these robust half-year results, Drax is delivering for shareholders with an increased dividend while continuing to support our employees, communities and customers during the Covid-19 crisis.

"As well as generating the flexible, reliable and renewable electricity the UK economy needs, we're delivering against our strategy to reduce the costs of our sustainable biomass and we're continuing to make progress pioneering world-leading bioenergy with carbon capture technologies, known as BECCS, to deliver negative emissions and help the UK meet its 2050 net zero carbon target.

"National Grid stated this week that the UK can't reach net zero by 2050 without negative emissions from bioenergy with carbon capture and storage. BECCS delivers for the environment and also provides an opportunity to create jobs and clean economic growth in the North and around the country."

Operational review

Pellet Production – *capacity expansion, improved quality and reduced cost*

- Adjusted EBITDA up 213% to £25 million (H1 2019: £8 million)
  - Pellet production up 15% to 0.75Mt (H1 2019: 0.65Mt) – impact of adverse weather in H1 2019
  - Cost of production down nine per cent to $154/t[6] (H1 2019: $170/t[6])
  - Reduction in fines (larger particle-sized dust) in each cargo
- Cost reduction plan – targeting $64 million ($35/t, £13/MWh[4]) annual savings on 1.85Mt by 2022 vs. 2018 base
  - Expect to deliver $27 million of annual savings by end of 2020 – a saving of $18/t vs. 2018
    - Greater use of low-cost fibre, LaSalle (improved rail infrastructure, woodyard and sawmill co-location) and relocation of HQ from Atlanta to Monroe
  - Savings from projects to be delivered in 2020-2022
    - 0.35Mt capacity expansion (LaSalle, Morehouse and Amite), increased use of low-cost fibre, improved logistics and other operational enhancements
- $40 million investment in three 40kt satellite plants in US Gulf – commissioning from 2021, potential for up to 0.5Mt
  - Use of Drax infrastructure and sawmill residues – targeting 20% reduction in pellet cost versus current cost

Power Generation – *flexible, low-carbon and renewable generation*

- Adjusted EBITDA up 45% to £214 million (H1 2019: £148 million)
  - Limited impact from Covid-19 – strong contracted position provided protection from lower demand, reduction in ROC[7] prices offset by increased system support services
  - £34 million of Capacity Market income (H1 2019: nil; £36 million in relation to H1 2019 subsequently recognised in H2 2019 following re-establishment of the Capacity Market)
  - £54 million of Adjusted EBITDA from hydro and gas generation assets (H1 2019: £36 million)
  - System support (Balancing Market, ancillary services and portfolio optimisation) up 8% to £66 million (H1 2019: £61 million)
  - Good commercial availability across the portfolio – 91% (H1 2019: 87%)
- Covid-19 – business continuity plan in place to ensure safe and uninterrupted operations
- Biomass generation up 16% to 7.4TWh (H1 2019: 6.4TWh)
  - Strong supply chain (impact of adverse weather in H1 2019) and record CfD availability (Q2 2020 – 99.5%)
- Pumped storage / hydro – excellent operational and system support performance
- Gas – excellent operational and system support performance, Damhead Creek planned outage underway
- Coal – 10% of output in H1 2020 – utilisation of coal stock before end of commercial generation (March 2021)

Customers – *managing the impact of Covid-19 on SME business*

- Adjusted EBITDA loss of £37 million (H1 2019: £9 million profit) inclusive of estimated £44 million impact of Covid-19 – reduced demand, MtM loss on pre-purchased power and increase in bad debt, principally in SME business
- Covid-19 – implemented work from home procedures to allow safe and continuous operations and customer support
- Good performance in Industrial and Commercial market – new contracts with large water companies providing five-year revenue visibility, while supporting the Group's flexible, renewable and low-carbon proposition
- Monitoring and optimisation of portfolio to ensure alignment with strategy

Other financial information

- Total financial performance measures reflects £108 million MtM gain on derivative contracts, £224 million coal obsolescence charges and £10 million impact (£6 million adjusted impact) from UK Government's reversal of previously announced corporation tax rate reduction resulting in revaluation of deferred tax asset and increased current tax charge
  - Additional c.£25–£35 million for coal closure costs expected to be reported as exceptional item in H2 2020 when coal consultation process is further advanced
- Capital investment – continuing to invest in biomass strategy, some delay in investment due to Covid-19
  - H1 2020: £78 million (H1 2019: £60 million)
  - Full year expected investment £190–£210 million (was £230–£250 million), includes 0.35Mt expansion of existing pellet plants and $20 million initial investment in satellite plants ($40 million in total)
- Net debt of £792 million, including cash and cash equivalents of £482 million (31 December 2019: £404 million)
  - Remain on track for around 2.0x net debt to Adjusted EBITDA by end of 2020

Notes:

(1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain derivative financial instruments fair value remeasurements.
(2) Earnings before interest, tax, depreciation, amortisation, excluding the impact of exceptional items and certain remeasurements.
(3) Borrowings less cash and cash equivalents.
(4) Assuming a constant rate of $USD1.45/£GBP.
(5) BioEnergy Carbon Capture and Storage.
(6) Cost of production in US biomass self-supply business – raw fibre, processing into a wood pellet, delivery to port of Baton Rouge and loading to vessel for shipment to UK – Free on Board (FOB).
Cost of ocean freight, UK port and rail cost reflected in Generation business accounts in addition to price paid to US business for the wood pellet.
(7) Renewables Obligation Certificate.

Forward Looking Statements
This announcement may contain certain statements, statistics and projections that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group") are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the expectations reflected in such statements are reasonable, no assurance can be given that such expectations will prove to be correct and because these statements involve risks and uncertainties, actual results may differ materially from those expressed or implied by those forward-looking statements. 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.

Results presentation and webcast arrangements
Management will host a webcast presentation for analysts and investors at 9:00am (UK Time), Wednesday 29 July 2020.

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

A copy of the presentation will be made available from 7:00am (UK time) on Wednesday 29 July 2020 for download at: www.drax.com>>investors>>results-reports-agm>> #investor-relations-presentations or use the link https://www.drax.com/investors/results-reports-agm/#investor-relations-presentations

Event Title:	Drax Group plc: Half Year Results
Event Date:	Wednesday 29 July 2020
	9:00am (UK time)
Webcast Live Event Link:	https://secure.emincote.com/client/drax/drax007
Conference call and pre-register Link:	https://secure.emincote.com/client/drax/drax007/vip_connect
Start Date:	Wednesday 29 July 2020
Delete Date:	Thursday 31 December 2020
Archive Link:	https://secure.emincote.com/client/drax/drax007

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Business Review

Introduction

Drax Group's ("Drax" / "The Group") purpose is to enable a zero carbon, lower cost energy future. This informs our strategy through which we aim to build a long-term future for sustainable biomass, become the leading provider of system stability in the UK and give customers control of their energy.

Today, Drax is the fourth largest energy generator in the UK operating a portfolio of renewable biomass, hydro and gas assets to deliver flexible, renewable and low-carbon generation, and system support services. Through our use of sustainable biomass we are also the UK's largest source of renewable electricity and the world's fourth largest producer of sustainable biomass pellets. Through our Customers business we supply renewable electricity, gas and energy solutions to UK businesses, as well as providing a route to market for over 2,000 renewable energy installations – typically wind and solar.

Drax has reduced its reported carbon emissions by over 85% since 2012 and expects to end commercial coal generation in March 2021. Building on this progress, in 2019, we announced a world first ambition to become carbon negative by 2030 using BioEnergy Carbon Capture and Storage (BECCS).

Through these activities and our strategy, we expect to deliver higher quality earnings, reduce commodity exposure and create opportunities for growth aligned with the UK's legally binding objective to become carbon neutral by 2050. This underpins our continued commitment to a sustainable and growing dividend.

Summary of H1 2020

Safety remains a primary focus and in the first half of 2020 the Total Recordable Incident Rate was 0.32 (H1 2019: 0.30). This reflects an increase in the number of minor reportable injuries. We take any increase in the number of reportable incidents seriously and have implemented processes to improve risk assessment, alongside a campaign to raise awareness of good practice, ensuring the correct personal protective equipment is used. With major planned outages at Drax Power Station and Damhead Creek during 2020 there has also been a high level of safety engagement with contractors prior to coming on site.

Like many companies, and in common with wider society, Covid-19 has been the dominant challenge in the first half of 2020. For Drax this was principally in relation to our Customers business, which has seen a significant reduction in electricity demand, the cost associated with exiting hedged positions as market prices have fallen and an increased risk of customer business failure and bad debt, resulting in an estimated impact on Adjusted EBITDA of £44 million. Against this backdrop we have supported a range of stakeholders and continued to make good progress with our strategy, whilst delivering a strong trading and operational performance.

Adjusted EBITDA of £179 million increased by 30% compared to H1 2019 (£138 million), reflecting high levels of renewable electricity generation, system support services, the reinstatement of Capacity Market payments and a strong performance in Pellet Production, offsetting the impact of Covid-19 on the Customers business.

Full year Adjusted EBITDA remains in line with market expectations, underpinned by good operational availability for the remainder of 2020. This is inclusive of the impact of Covid-19, where we continue to estimate a potential full year impact on Adjusted EBITDA of c.£60 million. There remains a range of potential outcomes for the Group's financial performance in 2020 depending on the depth and duration of the wider economic downturn caused by Covid-19.

Our balance sheet is strong with cash and total committed facilities of £694 million at 30 June 2020 and net debt of £792 million – on target for around 2.0x net debt to Adjusted EBITDA for the full year. A three-year extension of the Group's innovative £125 million CO_2 emission-linked ESG debt facility to 2025 enhanced the strength of the balance sheet, extending the maturity profile.

In assessing dividend payments, the Board has considered its wider stakeholder obligations in addition to our commitment to shareholders. Subject to the continued good operational performance seen in the first half of 2020 and the overall impact from Covid-19 remaining in line with the position we set out in April 2020, we expect to pay a dividend for the 2020 financial year of 17.1 pence per share (approximately £68 million), a 7.5% increase on 2019. This is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers an increasing proportion of stable earnings and cash flows. As has been our practice since the policy's inception in 2017, 40% of the expected full year dividend will be paid for the first six months of 2020, 6.8 pence per share (approximately £27 million).

Supporting all stakeholders through the Covid-19 pandemic

As a strategic part of the UK's critical national infrastructure, we recognise our responsibility to support the country's

response to Covid-19. We have remained in close contact with the UK Government and are committed to supplying the flexible, low-carbon and renewable electricity the UK needs, not least to the 250,000 businesses, including care homes, hospitals and schools we supply through our Customers business. Our operations have continued throughout the lockdown, we have not sought any Covid-19 financial support from the UK Government and no employees have been furloughed.

Our primary focus is the safety and wellbeing of our employees, where we aim to create a diverse and inclusive workplace that is both safe and supportive.

We have implemented an established business continuity plan which has allowed many employees across the Group to work from home. In addition to social distancing measures and increased remote working, we have implemented enhanced safety protocols at our sites, which will support the safe delivery of major planned outages this summer at Drax Power Station and Damhead Creek.

We appreciate the broader challenge that Covid-19 has created for many stakeholders and are actively working to support our customers, particularly in the SME market, which we believe has been hardest hit.

In addition, we have supported our communities with a range of initiatives including free electricity and gas for care homes, laptops to support home learning for primary school children and targeted charitable donations in the UK and US. We believe that supporting stakeholders is the right thing to do and will help those impacted by Covid-19.

Throughout the period we have remained committed to our environmental standards, upheld our commitment to sustainability in our biomass supply chains and continued to consult on plans to end coal generation.

Operational performance

In the US, our **Pellet Production** operations reported Adjusted EBITDA of £25 million up 213% (H1 2019: £8 million). This was a strong performance, reflecting high levels of production, improved pellet quality and a continued focus on cost reduction.

Pellet production in the first half of 2020 was 0.75 million tonnes, an increase of 15% (H1 2019: 0.65 million tonnes), which reflects good fibre availability compared to H1 2019 which, due to heavy rainfall, experienced restricted commercial forestry activity and a lower level of low-cost fibre availability.

Pellet quality, as measured by the level of fines (larger particle-sized dust) in each cargo, improved in the first six months of 2020, reflecting our focus on incremental improvements to our processes. Lower levels of fines result in biomass that is easier and safer to handle throughout the supply chain. As such there are safety, operational and cost imperatives in reducing the level of fines and we continue to work hard to deliver these improvements.

We remain focused on opportunities across the supply chain to deliver savings as part of our target to reduce the cost of biomass to £50/MWh[(1)] by 2027. As a part of this goal we have previously identified a programme of improvements, efficiencies and investments which we believe will reduce the cost of biomass by $35/tonne (£13/MWh[(1)]) on our existing portfolio by 2022 compared to 2018 (programme commenced in 2019). In the first half of 2020 this programme alongside increased output and other operational improvements delivered a cost saving of $16/tonne compared to H1 2019 ($170/tonne), a saving of nine per cent.

We expect this programme to deliver further benefits in the second half of 2020 through to 2022, associated with the previously outlined 350kt expansion of the Morehouse, Amite and LaSalle plants, increased use of low-cost fibre and improved logistics, such as the commissioning of an enlarged chambering yard at the Port of Baton Rouge – allowing 80-car train sets to operate from our LaSalle and Morehouse plants.

In **Generation**, the portfolio has performed strongly, with Adjusted EBITDA of £214 million, up 45% versus the first half of 2019 (£148 million).

The portfolio produced six per cent of the UK's electricity between October 2019 and March 2020 (the most recent period for which data is available), with Drax Power Station alone producing ten per cent of the UK's renewable electricity – the largest single source of renewable electricity in the UK, enough to power four million homes. This level of renewable generation, combined with the flexibility of our portfolio, allows the Group to support the continued deployment of intermittent renewables and the UK's plans for decarbonisation.

Portfolio availability (calculated based on the availability of each generation asset weighted by EBITDA contribution) was 91% (H1 2019: 87%) and includes CfD availability of 99.5% in Q2 2020, offsetting lower availability in Q1 2020. We believe that this was a strong performance which reflects the diligence and skill of our teams working with the added complexity of social distancing constraints.

The continued operation of our biomass supply chain remains key to flexible and renewable generation. This supply

chain has a high level of operational resilience designed to mitigate potential disruption. To date there has been no material impact from Covid-19 on our supply chain or those of our key suppliers.

Major planned outages on one biomass unit at Drax Power Station (which includes a turbine upgrade) and at Damhead Creek are taking place over the summer. Once completed the upgrade at Drax Power Station will deliver incremental thermal efficiency improvements and lower maintenance costs, further reducing the cost of generation using biomass. Reflecting the physical restrictions brought about by Covid-19 these outages are now more time consuming and in recognising these limitations, a planned turbine upgrade at Shoreham Power Station has been postponed until 2021.

Merchant power prices remain an important part of the Group's earnings, but by focusing on flexible, renewable and low-carbon generation, which includes index-linked renewable schemes, capacity payments and system support services, the importance of merchant power prices has reduced. Between 2020 and 2022 we have a strong forward sold power position with 34TWh contracted at £51.4/MWh, providing strong visibility of power sales and revenues. Beyond this period, whilst an exposure exists, it is largely associated with the three biomass units which operate under the Renewable Obligation Certificate (ROC) scheme. ROC generation equates to around 10TWh per year – around half of the portfolio's annual output.

System support services (Balancing Market, ancillary services and portfolio optimisation) was £66 million (H1 2019: £61 million), ahead of our expectations. The increase reflects a reduction in demand for electricity caused by Covid-19, which has meant that the UK electricity system has become increasingly dominated by low marginal cost intermittent and inflexible generation, such as wind, solar and nuclear. This has necessitated the system operator to take more actions to balance the system, procuring system support services from flexible generators like Drax.

Cruachan Power Station, which is an important source of system support, was also successful in a tender process to procure specific non-generation services – inertia and reactive power. The contract commenced in July 2020 and is worth up to £5 million per year over six years. This was the first tender of its kind and we expect the system operator to conduct further tenders over the coming years. We expect the demand for system support services to grow as the system decarbonises and becomes increasingly reliant on intermittent and inflexible generation.

The Group's portfolio of hydro and gas assets has performed well in the first half of 2020 with Adjusted EBITDA of £54 million (H1 2019: £36 million), based on system support services, the reinstatement of capacity payments and peak power generation.

Following the decision in February 2020 to end coal operations we expect to end commercial coal generation in March 2021. Closure is expected to result in annual cost savings of £25-35 million, which will help to support the financial model for long-term biomass generation when the current renewable schemes end in March 2027. A consultation process commenced earlier this year and subject to the outcome, closure is expected to result in one-off cash costs of £25-35 million, which we expect to provide for when discussions are more advanced in the second half of the year. As a result of the expected end to commercial coal operations, an obsolescence charge of £224 million was recognised in the H1 2020 accounts as an exceptional item, which will result in an ongoing reduction in the depreciation charge.

The **Customers** business reported a loss at an Adjusted EBITDA level of £37 million (H1 2019: £9 million profit). This reflects the significant reduction in demand caused by Covid-19, the cost associated with exiting hedged positions as market prices have fallen and the increased risk of business failure and bad debt – principally in the SME market, which represents c.30% of monthly billing. This represents most of the estimated impact to date of Covid-19 on the Group, the majority of which is reflected in the Customers business H1 result. However, even with social distancing measures eased we expect the impact of Covid-19 to continue in the second half of 2020.

The Industrial & Commercial business has performed better and has added long dated contracts with water utilities to the portfolio providing revenue visibility over the next five years. Looking beyond the impact of Covid-19 we will continue to monitor the portfolio to ensure alignment with the Group's strategy.

The Customers business has a differentiated market position – selling purely renewable power while helping over 2,000 independent renewable generators, access the market. In the same way that the Generation business provides system support, so too can our industrial customer portfolio. Over time, we expect this business, through efficiency and demand-side response, to contribute increasingly to system support. We continue to believe this approach will support long-term growth.

Biomass strategy

Biomass has an important role to play in global energy markets as a flexible and sustainable source of renewable energy, as well as its potential to deliver negative emissions. Key to securing this long-term role is reducing the cost of biomass, to a target level of £50/MWh[1] and developing greater control of our biomass supply chain, which can also support further cost reductions. At this level, alongside other supply chain opportunities, we believe that the Group's biomass activities can be economic when the current UK renewable support schemes end in 2027.

To enable this strategic objective the Group is targeting five million tonnes of self-supply capacity by 2027 (1.5 million today, plus 0.5 million tonnes in development), which we believe will provide greater scope for operational leverage and cost reduction. These savings will be delivered through further optimisation of existing biomass operations, greater utilisation of post-processing residues and an expansion of the fuel envelope to incorporate other low-cost renewable fuels across the expanded self-supply chain. We also remain alert to sector opportunities for organic and inorganic growth which could support the realisation of this strategy.

Progress in the first half of 2020 included the approval of three new 40kt satellite plants, which will utilise sawmill residues and leverage our existing US Gulf infrastructure to produce, we believe, biomass at around 20% below the current cost of production. In time we believe this model could provide up to 0.5 million tonnes of additional low-cost biomass residues.

The Group has continued to invest in innovation and our Research and Development team is evaluating lower cost sustainable biomass materials, such as bagasse (sugar cane residue) and UK fuels, including energy crops. The chemistry of these materials is more challenging than the current biomass material used, but the cost savings could be significant. As a producer and user of biomass at scale we believe that Drax is well placed to develop a wider range of lower cost biomass materials, subject to our strict sustainability policies. In time these materials could represent a significant amount of the sustainable biomass we require and, alongside other supply chain opportunities, are a means by which we believe we can reduce the cost of biomass to £50/MWh[(1)].

We expect global demand for wood pellets to increase by c.60% this decade, inclusive of Drax's requirement, as other countries develop decarbonisation programmes which acknowledge the benefits of sustainable biomass for generation. Whilst there is an abundance of sustainable biomass globally, there remains limited capacity to convert these fibres to energy dense pellets, which have a low-carbon footprint and lower cost associated with transportation. As a result, we expect the global market for biomass to remain structurally short. We are therefore exploring options to service biomass demand in other markets – Europe, North America and Asia alongside the UK. In doing so we are creating optionality over our use of sustainable biomass.

BECCS

The UK's Committee on Climate Change (CCC) has clearly set out what is required for the country to achieve its legally binding objective of being net zero by 2050. This includes an important role for BECCS to remove CO_2 from the atmosphere and safely store it, creating negative emissions. BECCS is the only large-scale solution for negative emissions with renewable electricity and system support capabilities. We believe Drax is a world leader in integrated biomass supply chains and generation, enabling the Group to provide BECCS across our four biomass generating units at Drax Power Station, removing up to 16 million tonnes of CO_2, around a third of the CCC's target for bioenergy in the UK. In doing so our ambition is to become a carbon negative company by 2030.

Drax Power Station is sited in the Humber region, the UK region with the highest absolute level of CO_2 emissions, owing to the industry and manufacturing located there. This makes the Humber region the natural site for large-scale Carbon Capture and Storage, which could be applied to other industries in addition to BECCS. We continue to work in partnership with Equinor, National Grid and others as part of the Zero Carbon Humber campaign, which we believe can bring new investment, new jobs and world-leading and exportable negative emissions technologies to the UK.

The technology to deliver post-combustion BECCS exists and is proven at scale. In autumn 2020, we expect to commence a trial of one such technology provided by Mitsubishi Heavy Industries. This solvent technology is being used globally, notably at the Petra Nova facility in Texas, USA, the world's largest post-combustion carbon capture plant, capturing 1.4 million tonnes of CO_2 a year. In addition, we are developing innovative technology options, including C-Capture, a partnership between Leeds University, Drax, IP Group and BP, which has developed an organic solvent which could also be used as part of our BECCS project.

Subject to the right support from the UK Government, we stand ready to develop and deliver this necessary contribution to the UK achieving net zero emissions by 2050.

Biomass sustainability

Under well-established UK and European legislation, sustainably sourced biomass is a renewable source of energy. The legal framework and science which underpins this treatment is clear. Carbon emitted in the generation of renewable electricity is absorbed by and accounted for in the growth of forest stock. This is based on well-established principles set out by the International Panel on Climate Change, a UN body, which reconfirmed its long-standing position on sustainably sourced biomass in 2019.

The Group provides full disclosure of the carbon emissions associated with our generation activities as part of our annual reporting. We also report the carbon emissions associated with our biomass supply chain, providing a greater level of disclosure than other forms of electricity generation which also have carbon emissions associated with their supply chains.

We maintain a rigorous and robust approach to biomass sustainability, ensuring the wood fibre used and pellets produced are fully compliant with the UK's mandatory standards as well as those of the EU. We use low-cost sawmill residues and forest residues, which are a by-product of commercial forestry processes, and thinnings from growing forests, which help improve forest stocks and forest health. The CO_2 emissions from using sustainably sourced biomass to produce electricity are balanced by the absorption of CO_2 from growing forests.

We are committed to continuously raising those standards, so that our sourcing policies evolve as the science develops. Our responsible sourcing is in line with the recommended sourcing practices set out by Forest Research – the UK's principal organisation for forestry and tree-related science. We have also set up an Independent Advisory Board which provides independent advice in all areas of our biomass sourcing. It has already reviewed our biomass policy and confirmed that it reflects the recommendations made by Forest Research. We apply these standards to our own activity and those of our third-party suppliers.

Looking at the evidence, we are seeing the positive effects that sustainable sourcing practices are having on the carbon stored. In the southeast US, where we source most of our biomass, increased demand for wood fibre has directly contributed to increased growth and protection of forests. Inventories have increased by over 90% since 1950 as more carbon is stored year after year, despite harvests also increasing.

Other developments

We are continuing to develop options for new gas generation which we believe is necessary to provide greater flexibility to the electricity system as it becomes more dependent on intermittent and inflexible generation. As a part of the development options for these projects we are also assessing the potential to introduce hydrogen as part of the fuel mix to further reduce the carbon intensity of these projects. Investment remains subject to an appropriate clearing price in a future Capacity Market auction.

Outlook

Full year Adjusted EBITDA remains in line with market expectations, underpinned by good operational availability for the remainder of 2020 and the impact of Covid-19 being in line with the position we set out in April 2020. These assumptions underpin our expectation for the full year dividend.

In Pellet Production we are focused on the continued production of good quality pellets at the lowest cost and expect to deliver further cost savings in the second half of 2020. We will also continue to progress plans to develop five million tonnes of low-cost biomass supply by 2027.

Our Generation proposition is strong: flexible, renewable and low-carbon electricity and system support services. We will continue to provide high levels of renewable electricity to the UK and expect the flexibility of our portfolio to continue to service the increasingly important market for system support services. In addition, we continue to develop our ambition for negative emissions with BECCS.

In our Customers business, we are addressing the ongoing challenges brought about by Covid-19 and will continue to monitor the portfolio to ensure it remains aligned with our strategic objectives. Through our Industrial & Commercial portfolio we also expect to develop our presence in the market for system support through flexible demand management and other value-added services.

We are making good progress with the delivery of our strategy and will build on this to deliver our targets. We will also continue to play an important role in our markets as well as realising our purpose of enabling a zero carbon, lower cost energy future for the UK.

Notes:

(1) Assuming a constant rate of $USD1.45/£GBP.

Financial Review

	Six months ended 30 June	
	2020	*2019*
Adjusted Revenue (£ million)	2,205	2,227
Adjusted EBITDA (£ million)	179	138
Adjusted Profit After tax (£ million)	43	8
Total Revenue (£ million)	2,219	2,232
Total Operating (Loss)/Profit (£ million)	(32)	34
Total (Loss)/Profit After tax (£ million)	(56)	4
Cash from Operating Activities (£ million)	168	199
Dividend (pence per share)	6.8	6.4
	As at 30 June 2020	***As at 31 December 2019***
Net Debt (£ million)	792	841

Introduction

The first six months of 2020 will be remembered for the emergence of Covid-19, which continues to develop and evolve, with most of the financial impact to date experienced in our Customers business.

Against this backdrop, the Group has delivered a robust financial performance with Adjusted EBITDA of £179 million, an increase of 30%, or £41 million from the same period in 2019 (six months ended 30 June 2019: £138 million). The result for the six months ended 30 June 2020 includes an estimated £44 million of a total expected £60 million negative impact on our full year expectations due to Covid-19. In addition, we have recorded £34 million of Capacity Market income in the first half of 2020. In 2019, £36 million of such income due in respect of the first half of the year was not recognised until the reinstatement of the Capacity Market in November 2019.

Following the announcement that commercial coal generation will cease at Drax Power Station in March 2021, associated assets have been fully written down in the first half of the year, resulting in an asset obsolescence charge of £224 million in the income statement, recognised as an exceptional item.

Total operating profit includes the effect of remeasurement gains of £108 million (six months ended 30 June 2019: gains of £1 million) on derivative contracts and the £224 million of asset obsolescence charges in relation to coal generation assets (six months ended 30 June 2019: £nil). Reflecting the impact of these items, the total operating loss for the six months ended 30 June 2020 was £32 million, compared to an operating profit of £34 million in the same period last year.

The improvement in Adjusted EBITDA was underpinned by high levels of renewable electricity generation, system support services, the reinstatement of Capacity Market payments and a strong performance in Pellet Production, offsetting the impact of Covid-19 on the Customers business.

The Group’s liquidity position is strong and provides a solid platform from which we can continue to execute our strategy, with cash of £482 million and total cash and total committed facilities of £694 million at the balance sheet date. Since the trading update issued in April, we have continued to review and refine our forecasts for the impact of Covid-19 and our full year expectations remain unchanged.

In Customers, performance was adversely affected by significant sector-wide impact from Covid-19. Lockdown and social distancing measures in the UK resulted in lower power demand, an increase in costs to exit previously hedged positions and an increase in bad debt charges due to higher expected credit losses.

Our balance sheet remains robust, supported by strong cash flow from operations, with net debt at 30 June of £792 million compared to £841 million at 31 December 2019. This delivers a net debt to Adjusted EBITDA ratio of 1.8x, based on a rolling 12-month period at 30 June 2020, ahead of our 2.0x target. This includes £44 million of Capacity Market

income recognised in Adjusted EBITDA during the second half of 2019 which related to earlier periods.

During the period we extended the contractual maturity of our existing £125 million Environmental, Social and Governance (ESG) facility, by three years to 2025. This further extends the profile of our facilities which include maturities out to 2029.

We remain committed to a sustainable and growing dividend. Subject to the continued good operational performance seen in the first half of 2020 and the overall impact from Covid-19 remaining in line with the position we set out in April 2020, we expect to pay a dividend for the 2020 financial year of 17.1 pence per share (approximately £68 million), a 7.5% increase on 2019. This is consistent with our policy to pay a dividend which is sustainable and expected to grow as the strategy delivers an increasing proportion of stable earnings and cash flows.

The Board has resolved to pay an interim dividend in respect of the six months ended 30 June 2020 of 6.8 pence per share (six months ended 30 June 2019: 6.4 pence per share), representing 40% of the expected full year dividend.

Financial Performance

Adjusted EBITDA

Group consolidated Adjusted EBITDA for the six months ended 30 June 2020 of £179 million reflects a £41 million, or 30%, increase on the same period last year (six months ended 30 June 2019: £138 million) and was underpinned by good operational performance and asset availability. Our strong generation hedge book continues to provide a measure of protection against lower demand and power prices following the emergence of the Covid-19 pandemic. At the same time, the reduction in demand has resulted in additional requirements for system support services, which our portfolio of generation assets is well placed to provide.

Our Generation business contributed Adjusted EBITDA of £214 million (six months ended 30 June 2019: £148 million), an increase of £66 million or 45% on the equivalent period last year. Part of the increase reflects the reinstatement of the Capacity Market during the second half of 2019, with associated income of £34 million recognised in the first half of 2020 (2019: £nil due to suspension), and the remainder driven by higher levels of biomass generation and system support services.

At Drax Power Station, biomass operations performed well, supported by 88% availability of the CfD unit (six months ended 30 June 2019: 82%), although the value of ROC generation was negatively impacted by a reduction in ROC recycle prices due to reduced demand during lockdown. Total biomass output of 7.4 TWh in the first half of 2020 was significantly higher than for the same period last year (six months ended 30 June 2019: 6.4 TWh), largely due to industry-wide challenges with biomass production and supply in the first half of 2019. We continue to deliver a high proportion of non-commodity related earnings through renewable support schemes (CfD and ROC), Capacity Market and system support services.

Our hydro, pumped storage and gas asset portfolio continued to perform well in the period, contributing Adjusted EBITDA of £54 million (six months ended 30 June 2019: £36 million), the increase largely attributable to the timing of Capacity Market income in 2019. Cruachan Power Station continues to perform strongly, delivering critical system support services during a period of increased volatility for the UK electricity network.

We continue to capture significant value in both the short-term and prompt markets due to the flexibility of our generating assets. This value has in part helped to offset a reduction in ROC recycle expectations due to lower demand caused by Covid-19. The first half result also benefits from the outage profile at Drax Power Station, with no major planned outages completed (six months ended 30 June 2019: one major planned outage). The outage programme for the full year includes one planned biomass unit outage (2019: two planned biomass outages); however, the cost of delivering the single biomass outage in the second half of the year will be increased due to implementation of social distancing measures to ensure the work can be carried out safely.

Performance in our Pellet Production business has been excellent, both in terms of quality and quantity of pellets. Adjusted EBITDA for the first half of the year was £25 million (six months ending 30 June 2019: £8 million), which includes £3 million of insurance proceeds received in respect of a business interruption claim due to weather disruption in the first half of 2019.

This improved performance has been driven by a record level of production and a significant increase in pellets delivered. Pellets delivered in the first six months of the year were 0.75Mt (six months ended 30 June 2019: 0.59Mt), an increase of 162kt or 28% compared to the same period last year, partly due to restrictions in 2019 resulting from the challenging weather conditions in the US Southeast, which restricted commercial forestry activity.

We have made continued good progress with biomass cost-saving initiatives, with lower fibre costs and improved transportation efficiency delivering savings compared to the first half of 2019. As a result, the overall cost per tonne of

pellets produced in the six months ended 30 June 2020 was nine per cent lower than for the same period in 2019.

Our Customers business delivered an Adjusted EBITDA loss of £37 million in the period, reflecting a significant impact of Covid-19 on results of approximately £44 million. Excluding this estimated impact of Covid-19 in the period, Adjusted EBITDA is more in line with the £9 million reported for the six months ended 30 June 2019.

We have experienced significantly reduced demand in the Customers business as a consequence of lockdown and social distancing measures in the UK. Combined electricity and gas volumes sold in the first six months of 2020 of 8.8TWh were almost 10% lower than last year (six months ended 30 June 2019: 9.7TWh). As a result, revenues have reduced, and we incurred costs to exit previously hedged positions as market prices have fallen. We estimate this impact in the period to be approximately £15 million.

Our expectation of increased business failure and bad debt resulting from the impact of Covid-19 is reflected, and is the principal driver behind the increase, in the charge for impairment losses on trade receivables for the six months ended 30 June 2020 of £26 million (six months ended 30 June 2019: £13 million). The provision is based on a consistent methodology, adjusted to reflect our initial experience and assumptions in respect of cash collections and potential customer business failures in the period since lockdown came into effect in March 2020. In addition, we retain a level of credit insurance cover.

Central and other costs of £23 million (six months ended 30 June 2019: £24 million) are slightly lower than the prior year. This includes an additional £2 million of investment in innovation compared to the same period last year, with a corresponding reduction in other corporate costs.

Total Operating Profit/Loss

The Total operating loss for the six months ended 30 June 2020 of £32 million has decreased from a profit of £34 million for the first six months of 2019. This includes the effect of remeasurement gains and losses on derivative contracts and exceptional items that are excluded from Adjusted results. The combined impact of certain remeasurements and exceptional items on Total operating profit was a charge of £116 million (six months ended 30 June 2019: charge of £1 million).

Net fair value remeasurement gains on derivative contracts included in operating profit were £108 million (six months ended 30 June 2019: £1 million) reflecting movements in the mark-to-market position on our portfolio of commodity and financial derivative contracts, to the extent they do not qualify for hedge accounting. The nature and purpose of our portfolio of derivative contracts is described in more detail in note 14 to the Condensed Consolidated Interim Financial Statements.

The derivative remeasurement gains in the first half of the year are predominantly the result of the weakening of sterling following Covid-19, reflecting the relative strength of our hedged position for currency purchases. The gains largely reverse losses recognised in the second half of 2019 as sterling strengthened.

In the first half of the year, we also recorded a £224 million exceptional asset obsolescence charge against coal generation assets at Drax Power Station, following the decision announced in February 2020 to cease commercial coal generation in March 2021. In the first half of 2019 we recorded exceptional acquisition and restructuring costs of £3 million in relation to the integration of the acquired hydro, pumped storage and gas assets into the wider group.

Profit/Loss After Tax and Earnings per Share

Adjusted profit after tax of £43 million compares to £8 million for the first six months of 2019, resulting in Adjusted earnings per share (EPS) of 10.8 pence (six months ended 30 June 2019: 2.0 pence).

Improvements in Adjusted profit after tax and EPS largely reflect the growth in Adjusted EBITDA described above and a reduction in depreciation charges in the second quarter following the write-down of the coal assets described above. Net interest and similar charges included in Adjusted results were £28 million (six months ended 30 June 2019: £28 million), in line with the same period last year. Within this figure, interest on our borrowings increased by £1 million to £26 million, reflecting a full period of debt service costs, after the acquisition bridge facility used to part-fund the acquisition of hydro, pumped storage and gas assets was refinanced between May and July last year. This increase was offset by a net reduction in non-cash charges for provision unwinds and the release of deferred financing costs.

The Total loss after tax includes remeasurements on derivative contracts and exceptional items, as described above, net of the tax impact associated with these items.

Reflecting the write-down of the coal assets in the period, the Total loss after tax of £56 million represents a £60 million reduction from Total profit after tax of £4 million for the first six months of 2019, with a corresponding reduction in Basic EPS from 1.0 pence to a loss per share of 14.0 pence for the first six months of 2020.

The Total tax credit for the period was £5 million (six months ended 30 June 2019: £nil) and is comprised of a tax charge of £13 million on Adjusted pre-tax profits and a tax credit of £18 million in relation to derivative remeasurements and exceptional items. The Total tax credit includes a charge of £10 million due to revaluation of deferred tax balances following the reversal of the reduction in UK tax rates to 17% from 1 April 2020. £4 million of this charge relates to coal assets and is therefore included in the exceptional tax charge for the period.

The effective tax rate applicable to the Group's Adjusted pre-tax profits, before taking into account the effect of changes in tax rates, of 13% is lower than the standard rate of corporation tax in the UK. For interim periods, the effective tax rate is based on our forecast tax rate for the full year, which benefits from patent box and research and development expenditure credits, primarily in respect of our biomass operations.

Capital Expenditure

We maintain a disciplined approach to capital expenditure, with all significant projects subject to appraisal and prioritisation by a Capital Committee prior to approval, overall ensuring adherence to our capital allocation policy and maintenance of an appropriate net leverage profile.

Total capital expenditure of £78 million in the first half of 2020 was higher than £60 million in the first six months of 2019.

The increase principally reflects execution of our strategy, with significant investments made in the expansion of our US pellet production facilities, alongside smaller projects within our generation portfolio to enhance efficiency and a planned CCGT outage at Damhead Creek.

Our full year expectations for capital expenditure have reduced, with a number of projects delayed due to Covid-19. This includes non-essential works at Drax Power Station, and delayed timing of some investments in our biomass supply chain.

Further investments to increase our biomass self-supply capacity have been approved and will commence in the second half of 2020, in respect of three satellite plants. We expect total full year capital investment of £190-210 million (year ended 31 December 2019: £172 million).

Cash and Net Debt

We have a strong focus on cash flow discipline and maintaining a robust balance sheet, underpinned by prudent risk management which provides protection in times of economic uncertainty and a strong platform from which to execute our strategy.

The Group continued to produce strong cash generated from operations in the first half of 2020, with a total inflow of £226 million (six months ended 30 June 2019: £229 million) before interest and tax payments. This reflects our focus on cashflow discipline and continued management of working capital. The increase in Adjusted EBITDA, cash received in respect of 2019 Capacity Market income in January 2020 (£72 million) and a net cash inflow resulting from increased generation and a corresponding reduction in inventories largely offset outflows due to an increase in ROC assets.

Net cash generated from operating activities in the period was £168 million (six months ended 30 June 2019: £199 million). In 2020, the Group falls into the new arrangements in respect of corporation tax payments for very large companies in the UK for the first time. As a result, the Group must now make tax payments earlier than under the previous regime. Cash taxes paid in the first half of 2020 were £24 million higher than for the same period last year which includes the one-time impact of this change in the year of transition.

Our liquidity position is strong, a view shared by our rating agencies following an upgrade of our liquidity assessment in the period from Adequate to Strong. At 30 June 2020 we held cash of £482 million (31 December 2019: £404 million), total borrowings were £1,274 million (31 December 2019: £1,245 million) and as a result net debt was £792 million (31 December 2019: £841 million). During the first half of 2020, the Group was assigned its first Short-Term Issuer rating equivalent to investment grade, affirming the strength of our balance sheet, strong near-term contracted earnings and depth and breadth of liquidity sources.

Our net debt to EBITDA ratio, based on reported Adjusted EBITDA for the last 12 months of £451 million, was 1.8x at 30 June 2020 compared to 2.1x at 31 December 2019. After adjusting for timing differences related to Capacity Market income and cash across the current and previous period, the net debt to EBITDA ratio was 1.9x at both 30 June 2020 and 31 December 2019. We continue to target a net debt to EBITDA ratio of less than 2.0x for the full year to 31 December 2020.

In addition to cash on hand, the Group has access to a £315 million revolving credit facility (RCF), available to manage low points in the cash cycle, which expires in 2021. No cash has been drawn under the RCF for over two years.

Available cash on hand and committed, undrawn facilities provide substantial headroom over our short-term liquidity requirements.

The small increase in borrowings in the first half of the year principally reflects the effect of movements in exchange rates on the carrying amount of US dollar denominated debt. The Group holds cross-currency swap instruments that fix the value of interest and principal repayments.

During the first half of the year, we completed a three-year extension to the £125 million ESG facility. The final contractual maturity of this facility is now 2025. Our overall cost of debt, taking into account the effect of instruments used to swap US dollar denominated payments into sterling, remains below 4% per annum.

Net cash released from working capital in the first six months of 2020 was £18 million (six months ended 30 June 2019: £35 million). We actively optimise our working capital position by managing payables, receivables and inventories to ensure that the working capital committed is closely aligned with operational requirements. As in previous periods, we have continued to deliver working capital benefits, in terms of cash flow, from making sales and purchases of ROC assets and rebasing foreign currency exchange contracts.

Historically, cash from ROCs has typically been realised several months after the ROC was earned, usually at the end of the ROC compliance period; however, the Group is able to limit the overall impact of ROCs on working capital by making separate sales and purchases in the compliance period. During the first half of 2020, such transactions generated a net cash outflow of £82 million due to more purchases than sales in the period, contributing to an overall working capital outflow from ROCs of £213 million as the level of ROC assets held on the balance sheet also increased due to generation in the period. The Group also has access to facilities enabling it to sell ROC trade receivables arising on a non-recourse basis. Utilisation of these facilities at 30 June 2020 was £47 million (31 December 2019: £nil).

In the first half of the year, the Group rebased several foreign currency contracts, which resulted in a working capital benefit with total cash released from rebased trades still outstanding at 30 June 2020 of £88 million (in the year ended 31 December 2019, total cash released from rebased trades still outstanding at 31 December 2019 was £84 million). A similar exercise for cross-currency swaps resulted in cash released from outstanding trades at 30 June 2020 of £59 million (31 December 2019: £23 million).

The Group holds a large portfolio of forward and option contracts for various commodities and financial products. These contracts are held to de-risk the business, by protecting the sterling value of future cash flows in relation to the sale of power or purchase of key commodities. We manage our exposures in accordance with our trading and risk management policies. These policies provide flexibility to optimise our trading position, working capital and liquidity when market conditions allow, whilst ensuring downside protection and prudent risk management are maintained. We will continue to monitor opportunities to optimise our position during the second half of the year.

In addition, the Group has access to a £200 million receivables monetisation facility, which accelerates associated cash flows and mitigates exposure to credit risk, as well as a number of payment facilities to leverage scale and efficiencies in transaction processing. We also facilitate a supply chain financing scheme, which enables certain suppliers to accelerate liquidity and which supports the wider working capital efficiency of the Group. There are no changes to the Group's payment terms under this arrangement, nor would there be if the arrangement was to fall away. The balances outstanding at 30 June 2020 and the change in utilisation in respect of each of these facilities is set out in note 11 to the Condensed Consolidated Interim Financial Statements.

The overall net cash inflow for the period was £71 million (six months ended 30 June 2019: outflow of £46 million), after cash payments for capital expenditure of £59 million (six months ended 30 June 2019: £68 million), dividend payments of £38 million (six months ended 30 June 2019: £34 million), net proceeds from new borrowings and repayment of existing borrowings of £nil million (six months ended 30 June 2019: £550 million) and payments in respect of acquisitions of £nil million (six months ended 30 June 2019: £692 million).

Distributions

We have a well-established capital allocation policy – a commitment to robust financial metrics that underpin our strong credit rating, invest in our core business, pay a sustainable and growing dividend and return surplus capital to shareholders as appropriate.

At the Annual General Meeting on 22 April 2020, shareholders approved payment of a final dividend for the year ended 31 December 2019 of 9.5 pence per share (£38 million). The final dividend was paid on 15 May 2020.

On 28 July 2020, the Board resolved to pay an interim dividend for the six months ended 30 June 2020 of 6.8 pence per share (£27 million), representing 40% of the expected full year dividend. The interim dividend will be paid on 2 October 2020 with a record date of 21 August 2020.

Subject to good operational performance and the impact of Covid-19 being in line with expectations, the Board expects to recommend a full year dividend of 17.1 pence per share (£68 million) with regards to the 2020 financial year.

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

Other Information

Update on Coal Closure

In February, we announced the decision to end commercial coal generation at Drax Power Station in March 2021, with the units remaining available to meet existing Capacity Market obligations until September 2022.

Following this announcement, we have recognised in the first half of 2020 an asset obsolescence charge of £224 million in respect of coal generating assets at Drax Power Station, reflecting the limited residual value in these assets following the decision to close.

The consultation process in relation to coal closure is ongoing and, as a result, the Group is not yet in a position to provide for the wider costs of coal closure and no such costs are reflected in the Condensed Consolidated Interim Financial Statements.

We continue to expect total costs in the range of £25–35 million, in relation to employee termination benefits and incremental costs of decommissioning the coal assets, with an ongoing reduction in total operating costs of £25–35 million per annum.

Covid-19

We continue to monitor and assess developments and the potential impact of the Covid-19 pandemic on our operations and financial performance. Our full year expectations are based upon a financial forecast that reflects our central assumptions regarding the likely duration of the pandemic, the duration and nature of restrictions such as social distancing, which can affect the demand for, and price of, power, alongside wider macroeconomic factors.

We anticipate a circa £60 million impact on Adjusted EBITDA for 2020 as a result. The majority of this is expected to arise in the Customers business, due to the reduction in demand, an increase in costs to exit previously hedged positions and increase in bad debt risk described above. The full year outturn assumes that the gradual easing of lockdown in the UK will continue on its current trajectory in line with government guidance, but that continued social distancing measures will remain in place throughout 2020.

We have modelled both a reasonable worst case and more extreme scenarios to test the Group’s financial resilience. To date, such modelling has indicated that, whilst there will be a financial impact, a significant proportion of which we have recognised in the first half of 2020, none of the scenarios modelled would result in an impact to the Group’s liquidity, solvency, ratings or covenants that could not be remediated by taking mitigating action.

Consequently, the directors have a reasonable expectation that the Group will continue in existence for the next twelve months and therefore, have adopted the going concern basis when preparing the Condensed Consolidated Interim Financial Statements.

Restatement of Comparative Financial Information

The Condensed Consolidated Interim Financial Statements include comparative information in respect of the six months ended 30 June 2019 and the year ended 31 December 2019.

The comparatives for the six months ended 30 June 2019 have been restated from the figures originally published in respect of the following items that were updated during the second half of 2019 and included in the Group’s audited financial statements for 2019, to ensure comparability with the current period amounts:

- Finalisation of the acquisition date fair values in respect of the portfolio of hydro, pumped storage and gas assets acquired in 2018.
- Correction of a historical error identified in respect of translation of fixed assets in our US business into the consolidated financial statements.

- A change in the presentation of amounts in relation to rebased foreign currency exchange contracts in the balance sheet.

Further details in respect of these items are included in the introduction to the Condensed Consolidated Interim Financial Statements and note 19. The restatements affect the 30 June 2019 balance sheet and other comprehensive income for the six months ended 30 June 2019 only. Reported profit and cash flows for the six months ended 30 June 2019 are unchanged.

Principal risks and uncertainties

The Group's financial and operating performance is subject to various risks and uncertainties. Several of these risks are not directly within the Group's control, such as the wider economic and political environment. We seek to manage and address the potential impact of the risks faced by the Group in accordance with policies approved by the Board and management, applying the Group's risk management framework. The Board monitors the risks and uncertainties, considering the changes to those risks over time, the possible measures to mitigate such risks and the approach which might be taken in managing residual risks to the Group.

The Board as part of its half year processes considered reports from management reviewing the principal risks and uncertainties and how these might evolve during the second half of 2020. Following this review and noting the potential impact of Covid-19 and Brexit (detailed below), the Board is satisfied that the Group's principal risks reported previously remain materially unchanged. Further details of the Group's principal risks and uncertainties can be found on pages 54 - 61 of the 2019 Annual Report and Accounts, which is available at www.drax.com.

Covid-19

Since late February 2020, the Board has received regular reports from management connected with the Group's response to the Covid-19 pandemic. This has included, for example, how the Group has adjusted its working practices, implemented new IT infrastructure to support those changes in working practices and tracked business performance.

More recently the Board has received and reviewed reports on how Covid-19 might impact the Group's principal risks looking forward into the second half of the year.

The Covid-19 pandemic has had a significant impact on many aspects of society and the global economy, and the duration and depth of these impacts remain uncertain. The resulting market environment has led to a significant reduction in demand for power, an increase in the costs of selling pre-contracted power back into the market and the increased risk of business failure and bad debt in the businesses we supply, all of which have primarily impacted our Customers business. Each of these, and other developments which have not yet been identified due to the uncertainties associated with Covid-19, could adversely affect our business in the second half of the year. Against this backdrop we have continued to make good progress with our strategy, whilst delivering a strong trading and operational performance.

The Group has mobilised effectively to put in place additional measures to mitigate the impacts of identified risks. Our Incident Management process comprising strategic (led by the Executive Committee), tactical and operational level teams have developed and implemented additional measures and are continuously monitoring our plans and their effectiveness in response to the rapidly changing environment.

The health, safety and wellbeing of all employees, contractors and visitors remains of paramount importance to us and we are taking all possible actions to help them, whilst continuing to support the UK's energy market. In respect of Generation, reflecting its importance as critical national infrastructure, we have focussed on being able to operate and generate whilst protecting our employees and contractors, and accordingly this has been, and is expected to continue to be, a matter of priority. Our Customers business has demonstrated that it can still operate effectively through remote working.

Proactive measures have been implemented to safeguard all those who are still required to attend the Group's operational sites to ensure compliance with the UK government guidelines and those issued by US authorities. Updates on these measures are provided regularly to executive management and the Board.

It is recognised that Covid-19 continues to carry inherent uncertainties (as would any subsequent outbreak or pandemic) and the impacts continue to evolve which could lead to further changes in Government policy, macroeconomic policy and the behaviours of people and markets that may impact some risks. The Board continues to have regular engagement with management on the Group's response to these risks in order to assess, monitor and promptly respond to any evolving impact of Covid-19 on our operations and business, including impacts for all our stakeholders.

Additional information on the commercial and financial impact for the Group of Covid-19 can be found in the Business Review and Financial Review.

Brexit

We continue to monitor and prepare for the UK's exit from the European Union. Until the negotiations on timescales and the details of agreements are concluded, the wider economic, political and regulatory uncertainty arising from Brexit remains. Progress during the transition phase and trade negotiations will continue to be monitored particularly for any potential impacts on our supply chain and regulatory requirements if an agreement is not reached by the end of the

transition period and the UK move to trading on WTO terms. We continue to promote the benefits of biomass and are engaged with government and regulators in the UK and internationally to ensure the Group's views and positions on current and forthcoming legislation and regulations, and on energy and environmental policy issues that may have implications for our business, are represented.

The contents of the Business Review, Financial Review and Principal Risks and Uncertainties sections of this report were approved by the Board on 28 July 2020.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

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

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

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

By order of the Board

Will Gardiner
Chief Executive Officer
28 July 2020

Condensed Consolidated Interim Financial Statements

Introduction

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

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

Basis of preparation

The Condensed Consolidated Interim Financial Statements have been prepared using accounting policies consistent with International Financial Reporting Standards (IFRS) as adopted by the EU and in accordance with IAS 34 'Interim Financial Reporting'. The information provided in respect of the year ended 31 December 2019 does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not draw attention to any matters by way of emphasis and did not contain statements under Section 498(2) or (3) of the Companies Act 2006.

The Condensed Consolidated Interim Financial Statements have been prepared on the going concern basis and on the historical cost basis, except for certain assets and liabilities that have been measured at fair value (principally derivative financial instruments) and the assets and liabilities of the Group's defined benefit pension schemes (measured at fair value and using the projected unit credit method respectively).

The impact of Covid-19 on the application of the going concern basis is discussed in further detail in the Financial Review.

The Condensed Consolidated Interim Financial Statements were approved by the Board on 28 July 2020.

Adoption of new and revised accounting standards

The accounting policies adopted in the preparation of the Condensed Consolidated Interim Financial Statements are consistent with those followed in the preparation of the Group's Annual Report and Accounts for the year ended 31 December 2019, except for the adoption of new standards, interpretations and amendments effective as of 1 January 2020. The adoption of new standards, interpretations and amendments in the current year has not had a material impact. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective at 30 June 2020.

A full listing of new standards, interpretations and pronouncements under IFRS applicable to these Condensed Consolidated Interim Financial Statements is presented in note 20.

Judgements and estimates

With the exception of the specific matters set out below; the significant judgements and key sources of estimation uncertainty applicable to the preparation of the Condensed Consolidated Interim Financial Statements are the same as those described on pages 130-131 of the Group's 2019 Annual Report and Accounts. In each case, judgements have been applied consistently and estimates made using a consistent methodology, with inputs and assumptions updated to reflect the Group's latest forecasts and prevailing market conditions at the balance sheet date as appropriate.

In addition, during the six months ended 30 June 2020, the Group made the following significant judgements in the process of applying the Group's accounting policies in the Condensed Consolidated Interim Financial Statements:

Closure of coal generation at Drax Power Station

On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022. As a result of this closure decision, which reflected that the dependencies between the coal and

biomass generating units are no longer considered to be significant, the Group has determined the Drax Power Station site to be comprised of two distinct cash-generating units (CGUs), one comprised of biomass generation assets and one comprised of coal generation assets. Previously, the Drax Power Station site was considered to be a single CGU. The Condensed Consolidated Interim Financial Statements have been prepared on the basis that this change occurred on the date of the closure decision – 26 February 2020.

Following the closure decision, an impairment review was undertaken for the coal generation assets CGU. This review indicated that the recoverable amount of the coal assets, calculated with reference to a value in use calculation based on the Group's latest approved forecasts, was significantly lower than their carrying value. As described in note 9, an asset obsolescence charge of £224.2 million has been recognised in the Condensed consolidated income statement in respect of the coal generation assets CGU. There were no reasonably possible changes in the assumptions underlying the value in use calculation that would have resulted in a material change to the value of the asset obsolescence charge. The asset obsolescence charge has been treated as an exceptional item and excluded from the Group's Adjusted Results.

Accounting for biomass purchase and sale contracts

The Group buys and sells biomass from time to time. To date, these contracts have been entirely for operational purposes. During the first half of 2020, the Group approved a change in risk management policies to permit some flexibility in trading activity to optimise the overall portfolio position and potentially release value in certain, limited circumstances. Following this change, the Group undertook an assessment of whether contracts to buy and sell biomass are within the scope of IFRS 9. Previously, the own-use exemption was applied to these contracts resulting in no amounts being recognised in respect of these contracts until they mature.

This assessment concluded that, whilst the own-use exemption was likely to no longer apply to all biomass purchase and sale contracts, if and when sales contracts are executed for optimisation purposes, the nature of these contracts means they cannot be readily net settled in cash or other financial instruments and, as a result, they remain outside of the scope of IFRS 9. Accordingly, the accounting for these contracts has not changed in these Condensed Consolidated Interim Financial Statements.

In addition, the impact of Covid-19 has resulted in a change in estimate in respect of the Group's provisions for expected credit losses, as described below.

Measurement of expected credit loss provisions

As a result of Covid-19, the Group has significantly increased its expectation of potential customer business failure rates and the resulting expected credit losses. The Group has updated its established provisioning methodology, using data for collection performance since the implementation of lockdown measures in the UK during March 2020 and expectations regarding future default rates, to take account of this increased risk. The increase in the charge for impairment losses of trade receivables from £12.5m in the six months to 30 June 2019 to £26.2m in the six months to 30 June 2020 is driven by the anticipated impacts of Covid-19 on levels of bad debt, resulting in a closing provision, after adjusting for actual credit losses, of £51.6 million (as at 31 December 2019: £40.7 million).

Whilst the position adopted reflects the Group's current best estimate of possible outcomes, actual rates of bad debt will depend upon the severity and depth of Covid-19, the measures applied during the second half of 2020 and beyond, and actual cash collection rates. Accordingly, actual outturn may differ from the position adopted by the Group in these Condensed Consolidated Interim Financial Statements.

Comparative information

The Group provides comparative financial information in these Condensed Consolidated Interim Financial Statements for both the six months ended 30 June 2019 and the year ended 31 December 2019. Where included within text, income statement comparatives refer to the six months ended 30 June 2019 and balance sheet comparatives are as at 31 December 2019, unless otherwise stated.

Restatement of comparative information

The comparative balance sheet as at 30 June 2019 has been restated in respect of the following items in order to adopt consistent presentation with that applied in the Group's 2019 Annual Report & Accounts:

- During the second half of 2019, the acquisition date fair values of assets and liabilities acquired in the purchase of the portfolio of hydro, pumped storage and gas assets on 31 December 2018 were finalised. As a result, finalisation of the terms of the defined benefit pension scheme transfer resulted in a reduction in the net opening surplus recognised by £1.1 million. The finalisation of the Group's assessment of CGUs and their fair values

resulted in a net £0.2 million reduction in property, plant and equipment values and a £0.1 million reduction in deferred tax liabilities recognised. All of these adjustments had corresponding impacts on goodwill. See note 19 for further details.

- To reflect the correction of a historical error identified during the second half of 2019 in respect of translation of fixed assets in the US-based business into the consolidated Group financial statements. Application of the correct foreign exchange rates resulted in an increase in property, plant and equipment carrying values as at 30 June 2019 and 1 January 2019 of £56.6 million and £55.5 million respectively. As a result, other comprehensive income for the six months ended 30 June 2019 has also been restated by £1.1 million to reflect the additional movement in the translation reserve. The correction has no impact on previously reported profit or cash amounts. See note 19 for further details.

- The Group rebased a number of forward foreign currency contracts in 2019. This released cash from the contracts with the gains being held on the balance sheet until the contracts mature. At 30 June 2019, the balance sheet included £42.9 million of such cash received from rebasing where the relating contracts had not yet matured and which was held in deferred income on the balance sheet. This was the first reporting period in which cash had been received from the rebasing of contracts, but the contracts had not yet matured. In the 2019 Annual Report and Accounts the balance sheet presentation of the cash received was amended such that, rather than the fair value of the rebased contracts being based on the pre-rebased rates and cash received being recognised as deferred income, the fair value of the rebased contracts are recognised based on the rebased rates and no deferred income is recognised. Accordingly, the 30 June 2019 comparatives have been restated to align with the application of the policy used in the Group's 2019 Annual Report and Accounts. This has resulted in a £42.9 million reduction in derivative assets and a £42.9 million reduction in deferred income in the 30 June 2019 balance sheet. See note 19 for further details.

Alternative performance measures (APMs)

Alternative Performance Measures are not defined in IFRS but provide additional information that is used by the Board to evaluate the Group's financial position and performance. These measures have been defined internally and may therefore not be comparable to similar APMs presented by other companies. The APMs presented in these Condensed Consolidated Interim Financial Statements are defined and calculated on a basis consistent with those presented in the Group's Annual Report and Accounts for the year ended 31 December 2019.

Presentation of the income statement

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the Total Results column on the face of the Condensed consolidated income statement. Exceptional items and certain remeasurements are deducted from the Total Results in arriving at the Adjusted Results for the period. The Group's Adjusted Results are consistent with the way executive management and the Board assess the performance of the Group. Adjusted Results are intended to reflect the underlying trading performance of the Group's businesses and are presented to assist users of the accounts in evaluating the Group's financial performance and performance against strategic objectives on a consistent basis from one period to the next, excluding the volatility of mark-to-market movements and one-off exceptional transactions.

Exceptional items are those transactions that, by their nature, do not reflect the trading performance of the Group in the period. For a transaction to be considered exceptional, management considers the nature of the transaction, the frequency of similar events, any related precedent and the commercial context. Presentation of a transaction as exceptional is approved by the Audit Committee in accordance with an agreed policy. That policy has not been amended in the six months ended 30 June 2020, nor in either of the comparative periods presented in these Condensed Consolidated Interim Financial Statements.

None of the financial impacts of Covid-19 on the Group's financial performance in the six months ended 30 June 2020 have been treated as exceptional items and they are included in Adjusted Results in full.

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

Further information on exceptional items and certain remeasurements in the current and previous period is included in note 6 to the Condensed Consolidated Interim Financial Statements.

The Group presents Adjusted EBITDA as an additional subtotal in the Adjusted Results column. Adjusted EBITDA is earnings before interest, tax, depreciation and amortisation, excluding the impact of exceptional items and certain remeasurements. Adjusted EBITDA is the primary measure used by executive management and the Board to assess the financial performance of the Group as it provides a more comparable assessment of the Group's year on year trading performance.

Net debt

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

The Group does not include lease liabilities, calculated in accordance with IFRS 16, in the definition of net debt. This reflects the nature of the contracts included in this balance which, prior to the application of IFRS 16, were predominantly not held on the balance sheet and instead disclosed as operating commitments.

Condensed consolidated income statement

		Six months ended 30 June 2020 (Unaudited)			Six months ended 30 June 2019 (Unaudited)		
	Notes	**Adjusted Results[(1)] £m**	**Exceptional items and certain remeasure-ments £m**	**Total Results £m**	Adjusted Results[(1)] £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue	3	**2,205.3**	**13.8**	**2,219.1**	2,226.6	5.8	2,232.4
Total cost of sales		**(1,804.1)**	**94.5**	**(1,709.6)**	(1,862.9)	(4.4)	(1,867.3)
Gross profit		**401.2**	**108.3**	**509.5**	363.7	1.4	365.1
Operating and administrative expenses		**(196.2)**	–	**(196.2)**	(213.2)	–	(213.2)
Impairment losses on trade receivables		**(26.2)**	–	**(26.2)**	(12.5)	–	(12.5)
Adjusted EBITDA[(2)]		**178.8**			138.0		
Depreciation		**(77.3)**	–	**(77.3)**	(83.1)	–	(83.1)
Amortisation		**(18.4)**	–	**(18.4)**	(19.5)	–	(19.5)
Asset obsolescence charges		–	**(224.2)**	**(224.2)**	–	–	–
Gains on disposal of assets		**0.9**	–	**0.9**	–	–	–
Acquisition and restructuring costs		–	–	–	–	(2.7)	(2.7)
Operating profit/(loss)		**84.0**	**(115.9)**	**(31.9)**	35.4	(1.3)	34.1
Foreign exchange gains	4	**4.4**	**(0.4)**	**4.0**	3.5	–	3.5
Interest payable and similar charges	4	**(33.3)**	–	**(33.3)**	(32.2)	(2.3)	(34.5)
Interest receivable	4	**0.5**	–	**0.5**	0.4	–	0.4
Profit/(loss) before tax		**55.6**	**(116.3)**	**(60.7)**	7.1	(3.6)	3.5
Tax:							
Before impact of changes in tax rates		**(7.2)**	**22.0**	**14.8**	0.7	(0.3)	0.4
Effect of changes in tax rates		**(5.5)**	**(4.3)**	**(9.8)**	–	–	–
Total tax (charge)/credit	5	**(12.7)**	**17.7**	**5.0**	0.7	(0.3)	0.4
Profit/(loss) for the period attributable to equity holders		**42.9**	**(98.6)**	**(55.7)**	7.8	(3.9)	3.9
Earnings/(loss) per share		**pence**		**pence**	pence		pence
– Basic	8	**10.8**		**(14.0)**	2.0		1.0
– Diluted	8	**10.7**		**(14.0)**	2.0		1.0

All results relate to continuing operations.

A comparative income statement for the year ended 31 December 2019 is reproduced in note 21.

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

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

Condensed consolidated statement of comprehensive income

	Six months ended 30 June	
	2020	2019 Restated[1]
	(Unaudited)	(Unaudited)
	£m	£m
(Loss)/profit for the period	**(55.7)**	3.9
Items that will not subsequently be reclassified to profit or loss:		
Actuarial gains/(losses) on defined benefit pension scheme	**6.6**	(6.7)
Deferred tax on actuarial gains/(losses) on defined benefit pension scheme	**(1.1)**	1.3
Loss on equity investments	**–**	(0.5)
Net fair value gains on cost of hedging	**53.4**	36.1
Deferred tax on cost of hedging	**(11.1)**	(6.9)
Net fair value gains on cash flow hedges	**205.1**	122.8
Deferred tax on cash flow hedges	**(42.5)**	(23.3)
Items that may subsequently be reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**16.6**	0.4
Fair value (losses)/gains on cash flow hedges	**(33.6)**	49.0
Deferred tax on cash flow hedges	**7.0**	(9.3)
Other comprehensive income for the period	**200.4**	162.9
Total comprehensive income for the period attributable to equity holders	**144.7**	166.8

(1) Results for the six months ended 30 June 2019 have been restated to reflect the impact on translation reserve as a result of the correction of the historical error identified in respect of exchange differences arising on the translation of foreign operations. See note 19 for further details.

Condensed consolidated balance sheet

	Notes	As at 30 June 2020 (Unaudited) £m	As at 30 June 2019 Restated[1] (Unaudited) £m	As at 31 December 2019 (Audited) £m
Assets				
Non-current assets				
Goodwill		**248.2**	248.2	248.2
Intangible assets		**191.1**	216.5	206.9
Property, plant and equipment		**2,123.9**	2,313.8	2,327.4
Right-of-use assets		**31.1**	25.2	31.4
Other fixed asset investments		**1.5**	2.1	3.0
Retirement benefit surplus		**16.3**	16.6	7.0
Deferred tax assets		**41.7**	33.1	45.3
Derivative financial instruments	14	**325.3**	327.1	152.3
		2,979.1	3,182.6	3,021.5
Current assets				
Inventories		**201.4**	287.9	292.0
ROC assets		**376.1**	312.2	162.7
Trade and other receivables and contract-related assets		**473.7**	389.3	608.8
Derivative financial instruments	14	**221.6**	227.6	193.7
Cash and cash equivalents		**481.5**	244.3	404.1
		1,754.3	1,461.3	1,661.3
Liabilities				
Current liabilities				
Trade and other payables and contract-related liabilities		**(1,067.1)**	(999.1)	(1,039.2)
Lease liabilities		**(7.1)**	(4.5)	(6.3)
Current tax liabilities		**(15.3)**	(12.0)	(37.8)
Derivative financial instruments	14	**(134.7)**	(95.2)	(216.5)
		(1,224.2)	(1,110.8)	(1,299.8)
Net current assets		**530.1**	350.5	361.5
Non-current liabilities				
Borrowings	10	**(1,273.9)**	(1,168.7)	(1,245.2)
Lease liabilities		**(25.5)**	(22.0)	(26.2)
Derivative financial instruments	14	**(67.9)**	(40.6)	(72.9)
Provisions		**(59.7)**	(53.9)	(54.2)
Deferred tax liabilities		**(289.4)**	(332.4)	(268.9)
		(1,716.4)	(1,617.6)	(1,667.4)
Net assets		**1,792.8**	1,915.5	1,715.6
Shareholders' equity				
Issued equity		**47.4**	47.3	47.4
Share premium		**429.6**	428.8	429.6
Treasury shares		**(50.4)**	(50.4)	(50.4)
Hedge reserve	16	**223.6**	291.3	121.5
Cost of hedging reserve		**84.1**	21.1	40.8
Other reserves	17	**773.6**	768.6	757.0
Retained profits		**284.9**	408.8	369.7
Total shareholders' equity		**1,792.8**	1,915.5	1,715.6

(1) The balance sheet for the year ended 30 June 2019 has been restated to reflect updated values in respect of the new Generation assets acquired on 31 December 2018. It has also been restated to reflect the historical correction of exchange differences arising on the translation of foreign operations and to align the application of the accounting policy for rebasing to that used in the Group's 2019 Annual Report and Accounts. See note 19 for further details.

Condensed consolidated statement of changes in equity

	Issued equity £m	Share premium £m	Treasury shares £m	Hedge reserve £m	Cost of hedging reserve £m	Other reserves £m	Retained profits £m	Total £m
At 1 January 2019	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**768.2**	**442.7**	**1,826.5**
Profit for the year	–	–	–	–		–	0.5	0.5
Other comprehensive income	–	–	–	(16.6)	46.6	(11.2)	(17.3)	1.5
Total comprehensive income for the year	–	–	–	(16.6)	46.6	(11.2)	(16.8)	2.0
Equity dividends paid	–	–	–	–	–	–	(58.9)	(58.9)
Issue of share capital	0.4	4.9	–	–	–	–	–	5.3
Movements on cash flow hedges released directly from equity	–	–	–	(78.9)	–	–	–	(78.9)
Deferred tax on cash flow hedges released directly from equity	–	–	–	17.1	–	–	–	17.1
Movement on cost of hedging released directly from equity	–	–	–	–	3.8	–	–	3.8
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.7)	–	–	(0.7)
Repurchase of shares (1)	–	–	(3.3)	–	–	–	–	(3.3)
Movement in equity associated with share-based payments	–	–	–	–	–	–	2.7	2.7
At 31 December 2019	**47.4**	**429.6**	**(50.4)**	**121.5**	**40.8**	**757.0**	**369.7**	**1,715.6**
At 1 January 2019 – as previously reported	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**712.7**	**442.7**	**1,771.0**
Restatement (2)	–	–	–	–	–	55.5	–	55.5
At 1 January 2019 – restated (2)	**47.0**	**424.7**	**(47.1)**	**199.9**	**(8.9)**	**768.2**	**442.7**	**1,826.5**
Profit for the period	–	–	–	–	–	–	3.9	3.9
Other comprehensive income – restated (2)	–	–	–	139.2	29.2	0.4	(5.9)	162.9
Total comprehensive income for the period	–	–	–	139.2	29.2	0.4	(2.0)	166.8
Equity dividends paid	–	–	–	–	–	–	(33.5)	(33.5)
Issue of share capital	0.3	4.1	–	–	–	–	–	4.4
Movements on cash flow hedges released directly from equity	–	–	–	(59.0)	–	–	–	(59.0)
Deferred tax on cash flow hedges released directly from equity	–	–	–	11.2	–	–	–	11.2
Movement on cost of hedging released directly from equity	–	–	–	–	1.0	–	–	1.0
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.2)	–	–	(0.2)

Repurchase of shares[1]	–	–	(3.3)	–	–	–	–	(3.3)
Movement in equity associated with share-based payments	–	–	–	–	–	–	1.6	1.6
At 30 June 2019 – restated [2]	**47.3**	**428.8**	**(50.4)**	**291.3**	**21.1**	**768.6**	**408.8**	**1,915.5**
At 1 January 2020	**47.4**	**429.6**	**(50.4)**	**121.5**	**40.8**	**757.0**	**369.7**	**1,715.6**
Loss for the period	–	–	–	–	–	–	(55.7)	(55.7)
Other comprehensive income	–	–	–	136.0	42.3	16.6	5.5	200.4
Total comprehensive income for the period	–	–	–	136.0	42.3	16.6	(50.2)	144.7
Equity dividends paid	–	–	–	–	–	–	(37.7)	(37.7)
Movements on cash flow hedges released directly from equity	–	–	–	(41.8)	–	–	–	(41.8)
Deferred tax on cash flow hedges released directly from equity	–	–	–	7.9	–	–	–	7.9
Movement on cost of hedging released directly from equity	–	–	–	–	1.2	–	–	1.2
Deferred tax on cost of hedging released directly from equity	–	–	–	–	(0.2)	–	–	(0.2)
Movement in equity associated with share-based payments	–	–	–	–	–	–	3.1	3.1
At 30 June 2020	**47.4**	**429.6**	**(50.4)**	**223.6**	**84.1**	**773.6**	**284.9**	**1,792.8**

(1) Repurchase of shares reflects the cost of acquiring ordinary shares as part of the share buy-back programme completed on 21 January 2019. At 30 June 2020 these shares have not been cancelled and are recognised as treasury shares.

(2) Due to the historical correction of exchange differences arising on the translation of foreign operations, other reserves has been restated by £55.5 million to reflect the correct opening balance at 1 January 2019 and by £56.6 million to reflect the correct balance as at 30 June 2019. Other comprehensive income for the six months ended 30 June 2019 has been updated by £1.1 million to reflect the correct movement as a result of these changes. See note 19 for further details.

Condensed consolidated cash flow statement

	Notes	Six months ended 30 June **2020 (Unaudited) £m**	 2019 (Unaudited) £m	Year ended 31 December 2019 (Audited) £m
Cash generated from operations	11	**226.4**	228.8	471.2
Income taxes paid		**(31.6)**	(7.3)	(9.6)
Other gains		**–**	0.7	–
Interest paid		**(27.3)**	(23.0)	(50.3)
Interest received		**0.4**	0.2	2.1
Net cash from operating activities		**167.9**	199.4	413.4
Cash flows from investing activities				
Purchases of property, plant and equipment		**(55.6)**	(55.2)	(142.3)
Purchases of intangible assets		**(2.9)**	(12.5)	(29.1)
Acquisition of subsidiaries		–	(691.7)	(691.7)
Proceeds on disposal of assets		**3.4**	–	–
Net cash used in investing activities		**(55.1)**	(759.4)	(863.1)
Cash flows from financing activities				
Equity dividends paid	7	**(37.7)**	(33.5)	(58.9)
Proceeds from issue of share capital		–	4.4	5.3
Purchase of own shares		–	(3.3)	(3.3)
Repayment of borrowings	10	–	(150.0)	(550.0)
New borrowings drawn down	10	–	702.9	1,202.8
Repayment of lease liabilities		**(4.0)**	(2.3)	(7.4)
Other financing costs paid		–	(4.1)	(16.9)
Net cash (absorbed by)/generated from financing activities		**(41.7)**	514.1	571.6
Net increase/(decrease) in cash and cash equivalents	12	**71.1**	(45.9)	121.9
Cash and cash equivalents at beginning of the period		**404.1**	289.0	289.0
Effect of changes in foreign exchange rates		**6.3**	1.2	(6.8)
Cash and cash equivalents at end of the period		**481.5**	244.3	404.1

Notes to the Condensed Consolidated Interim Financial Statements

1. General information

These notes provide additional information about the disclosures within the Condensed Consolidated Interim Financial Statements. Further information can be found in the Group's 2019 Annual Report and Accounts on pages 138–208.

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

2. Segmental reporting

The Group is organised into three businesses, with a dedicated management team for each, and a central corporate function providing certain specialist and shared services. The Group's businesses, which each represent a reportable operating segment for the purpose of segmental reporting, are:

Generation: power generation activities in the UK;

Customers: supply of electricity and gas to business customers in the UK; and

Pellet Production: production of sustainable compressed wood pellets at our processing facilities in the US.

Information reported to the Board for the purposes of assessing performance and making investment decisions is based on these three segments. The measure of profit or loss for each reportable segment presented to the Board on a regular basis is Adjusted EBITDA (as defined in the basis of preparation)

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

Seasonality of trading

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

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

Segment revenues and results

The following is an analysis of the Group's performance by reporting segment for the six months ended 30 June 2020. The Board monitors the Adjusted Results for the Group by operating segment as presented in the tables below:

	Six months ended 30 June 2020 (Unaudited)						
	Generation £m	**Customers £m**	**Pellet Production £m**	**Intra-group eliminations £m**	**Adjusted Results £m**	**Exceptional items and certain remeasure-ments £m**	**Total Results £m**
Revenue							
External sales	**1,173.5**	**1,031.8**	**–**	**–**	**2,205.3**	**13.8**	**2,219.1**
Inter-segment sales	**583.6**	**–**	**118.0**	**(701.6)**	**–**	**–**	**–**
Total revenue	**1,757.1**	**1,031.8**	**118.0**	**(701.6)**	**2,205.3**	**13.8**	**2,219.1**
Segment gross profit	**317.8**	**30.4**	**53.0**	**–**	**401.2**	**108.3**	**509.5**
Segment Adjusted EBITDA	**214.2**	**(36.8)**	**24.8**	**–**	**202.2**		
Central costs					**(23.4)**	**–**	**(23.4)**
Consolidated Adjusted EBITDA					**178.8**		
Depreciation and amortisation					**(95.7)**	**–**	**(95.7)**
Asset obsolescence charges					**–**	**(224.2)**	**(224.2)**
Gains on disposal of assets					**0.9**	**–**	**0.9**
Operating profit/(loss)					**84.0**	**(115.9)**	**(31.9)**
Net finance costs					**(32.8)**	**–**	**(32.8)**
Foreign exchange gains					**4.4**	**(0.4)**	**4.0**
Profit/(loss) before tax					**55.6**	**(116.3)**	**(60.7)**

	Six months ended 30 June 2019 (Unaudited)						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue							
External sales	1,098.4	1,128.1	0.1	–	2,226.6	5.8	2,232.4
Inter-segment sales	647.1	–	96.9	(744.0)	–	–	–
Total revenue	1,745.5	1,128.1	97.0	(744.0)	2,226.6	5.8	2,232.4
Segment gross profit	261.7	71.5	32.9	(2.4)	363.7	1.4	365.1
Segment Adjusted EBITDA	147.6	8.8	7.6	(2.4)	161.6		
Central costs					(23.6)	–	(23.6)
Consolidated Adjusted EBITDA					138.0		
Depreciation and amortisation					(102.6)	–	(102.6)
Acquisition and restructuring costs					–	(2.7)	(2.7)
Operating profit					35.4	(1.3)	34.1
Net finance costs					(31.8)	(2.3)	(34.1)
Foreign exchange gains					3.5	–	3.5
Profit/(loss) before tax					7.1	(3.6)	3.5

	Year ended 31 December 2019 (Audited)						
	Generation £m	Customers £m	Pellet Production £m	Intra-group eliminations £m	Adjusted Results £m	Exceptional items and certain remeasure-ments £m	Total Results £m
Revenue							
External sales	2,433.8	2,269.1	–	–	4,702.9	10.5	4,713.4
Inter-segment sales	1,512.7	–	229.4	(1,742.1)	–	–	–
Total revenue	3,946.5	2,269.1	229.4	(1,742.1)	4,702.9	10.5	4,713.4
Segment gross profit	649.5	134.1	84.1	(0.6)	867.1	(132.8)	734.3
Segment Adjusted EBITDA	407.5	17.4	31.5	(0.6)	455.8		
Central costs					(46.0)	–	(46.0)
Consolidated Adjusted EBITDA					409.8		
Acquisition and restructuring costs					–	(9.0)	(9.0)
Depreciation and amortisation					(207.9)	–	(207.9)
Losses on disposal of assets					(1.2)	–	(1.2)
Other gains					3.1	–	3.1
Operating profit					203.8	(141.8)	62.0
Net finance costs					(60.0)	(5.2)	(65.2)
Foreign exchange (losses)/gains					(1.6)	2.0	0.4
Profit/(loss) before tax					142.2	(145.0)	(2.8)

The accounting policies applied for the purpose of measuring the segments' profits or losses, assets and liabilities are the same as those used in measuring the corresponding amounts in the Group's 2019 Annual Report and Accounts.

Capital expenditure by segment

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

	Capital additions to intangible assets	**Capital additions to property, plant and equipment**	Capital additions to intangible assets	Capital additions to property, plant and equipment	Capital additions to intangible assets	Capital additions to property, plant and equipment
	30 June 2020 Unaudited £m	**30 June 2020 Unaudited £m**	30 June 2019 Unaudited £m	30 June 2019 Unaudited £m	31 December 2019 Audited £m	31 December 2019 Audited £m
Customers	**2.8**	–	9.9	0.2	18.9	0.6
Generation	**0.5**	**50.5**	0.5	44.3	0.8	129.9
Pellet Production	–	**23.2**	0.1	4.1	0.3	17.9
Central	–	**1.3**	0.5	–	0.8	2.9
Total	**3.3**	**75.0**	11.0	48.6	20.8	151.3

Total cash outflows in relation to capital expenditure during the six months ended 30 June 2020 were £58.5 million (six months ended 30 June 2019: £67.7 million).

The implementation of a new billing system in the Customers business was stopped during 2019. Approximately £19 million of costs incurred to date are held on the balance sheet, which the Group believes have value and will be recovered in full.

Major customers

Total revenue for the six months ended 30 June 2020 includes £249.5 million from one customer (six months ended 30 June 2019: £237.4 million from one customer) that represents 10% or more of the Group's total revenue for the period. These revenues arose in the Generation segment.

3. Revenue

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

During the period, the Group made sales (and related purchases) of ROCs to help optimise our working capital position. External sales of ROCs below include £249.5 million of such sales (six months ended 30 June 2019: £237.4 million), with a similar value reflected in cost of sales.

As described in further detail on page 189 of the Group's 2019 Annual Report and Accounts, certain electricity sales in the Generation segment are typically made under forward-dated contracts with customers. Between inception and maturity these contracts meet the definition of a derivative financial instrument and are measured at fair value on the Group's balance sheet (see note 14). Fair value gains and losses on power sales contracts that have not matured are shown as certain remeasurements within revenue. At maturity, revenue is recognised in the Group's Adjusted Results at the price agreed in the contract, reflecting the cash received for the delivery of power.

The sources of income were as follows:

	Six months ended 30 June 2020 (Unaudited)		
	External £m	**Intra-group £m**	**Total £m**
Generation			
Electricity sales	**655.2**	**583.6**	**1,238.8**
ROC sales	**327.5**	–	**327.5**
CfD income	**159.6**	**–**	**159.6**
Ancillary services	**19.9**	**–**	**19.9**
Other income	**11.3**	**–**	**11.3**
Total	**1,173.5**	**583.6**	**1,757.1**
Customers			
Electricity and gas sales	**1,031.6**	**–**	**1,031.6**
Other income	**0.2**	**–**	**0.2**
Total	**1,031.8**	**–**	**1,031.8**
Pellet Production			
Pellet sales	**–**	**118.0**	**118.0**
Total	**–**	**118.0**	**118.0**
Elimination of intra-group sales	**–**	**(701.6)**	**(701.6)**
Total adjusted consolidated revenue	**2,205.3**	**–**	**2,205.3**
Certain remeasurements	**13.8**	**–**	**13.8**
Total consolidated revenue	**2,219.1**	**–**	**2,219.1**

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

	Year ended 31 December 2019 (Audited)		
	External £m	Intra-group £m	Total £m
Generation			
Electricity sales	1,364.9	1,115.0	2,479.9
ROC sales	733.7	368.1	1,101.8
CfD income	261.7	–	261.7
Ancillary services	49.9	1.8	51.7
Other income	23.6	27.8	51.4
Total	2,433.8	1,512.7	3,946.5
Customers			
Electricity and gas sales	2,226.1	–	2,226.1
Other income	43.0	–	43.0
Total	2,269.1	–	2,269.1
Pellet Production			
Pellet sales	–	229.4	229.4
Total	–	229.4	229.4
Elimination of intra-group sales	–	(1,742.1)	(1,742.1)
Total adjusted consolidated revenue	4,702.9	–	4,702.9
Certain remeasurements	10.5	–	10.5
Total consolidated revenue	4,713.4	–	4,713.4

4. Net interest and other finance charges

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

	Six months ended 30 June		Year ended 31 December
	2020	2019	2019
	(Unaudited)	(Unaudited)	(Audited)
	£m	£m	£m
Interest payable and similar charges:			
Interest payable on borrowings	**(26.0)**	(25.2)	(49.8)
Interest on lease liabilities	**(0.6)**	(0.5)	(1.2)
Unwinding of discount on provisions	**(0.3)**	(4.0)	(4.5)
Amortisation of deferred finance costs	**(3.1)**	(1.5)	(4.2)
Net finance charges in respect of defined benefit scheme	–	0.4	0.8
Other financing charges	**(3.3)**	(1.4)	(2.4)
Total interest payable and similar charges included in Adjusted Results	**(33.3)**	(32.2)	(61.3)
Interest receivable:			
Interest income on bank deposits	**0.4**	0.4	1.3
Net finance income in respect of defined benefit scheme	**0.1**	–	–
Total interest receivable included in Adjusted Results	**0.5**	0.4	1.3
Foreign exchange gains/(losses) included in Adjusted Results	**4.4**	3.5	(1.6)
Total recurring net interest charge included in Adjusted Results	**(28.4)**	(28.3)	(61.6)
Certain remeasurements			
(Losses)/gains on derivative contracts recognised in interest	**(0.4)**	0.2	2.0
Exceptional costs of debt restructure:			
Acceleration of deferred costs in relation to previous and temporary facilities	**–**	(2.5)	(5.2)
Total other finance charges	**(0.4)**	(2.3)	(3.2)
Total net interest charge	**(28.8)**	(30.6)	(64.8)

5. Taxation

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

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

	Six months ended 30 June		Year ended 31 December
	2020 (Unaudited) £m	2019 (Unaudited) £m	2019 (Audited) £m
Tax credit comprises:			
Current tax			
- Current period charge	**9.5**	10.9	31.0
- Adjustments in respect of prior periods	**(0.4)**	–	10.4
Deferred tax			
- Before impact of tax rate changes	**(23.6)**	(10.3)	(39.0)
- Adjustments in respect of prior periods	**(0.3)**	(1.0)	(7.5)
- Effect of changes in tax rate	**9.8**	–	1.8
Tax credit	**(5.0)**	(0.4)	(3.3)

The expected tax rate for the full year, before the impact of changes in tax rates, is lower than the standard corporation tax rate applicable in the UK, principally due to the tax benefit arising from UK Patent Box claims and research and development expenditure credits.

On 17 March 2020, the UK Government substantively enacted a reversal of the planned reduction in the main UK Corporation tax rate to 17%, with effect from 1 April 2020. As a result, the main UK Corporation tax rate remains 19%. The full-year charge in respect of this rate change is expected to be £19.3 million, of which £9.8 million in included within the results for the six months ended 30 June 2020. The rate change impact of £4.3 million relating to the impaired coal assets has been treated as an exceptional item and excluded from the Group's Adjusted Results.

6. Certain remeasurements and exceptional items

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

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

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

Period affected		
	Six months ended 30 June	Year ended 31 December
2020 (Unaudited) £m	2019 (Unaudited) £m	2019 (Audited) £m

Asset obsolescence charges relating to coal-specific assets written-off following the decision to cease commercial coal generation in March 2021.		
	Acquisition and restructuring costs associated with the acquisition and on-boarding of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited).	
	Costs incurred as a result of restructuring the Group's debt in 2019, including facility break costs and the acceleration of the amortisation of deferred finance costs associated with the redeemed facilities. Interest costs that relate to the acquisition bridge facility have been classified as exceptional, as they relate directly to the acquisition described above.	
Certain remeasurements comprise gains or losses on derivative contracts to the extent that those contracts do not qualify for hedge accounting, or hedge accounting is not effective, and those gains or losses are either i) unrealised and relate to the delivery of commodity contracts in future periods, or ii) are realised in relation to the delivery of commodity contracts in the current period. The effect of excluding certain remeasurements from the Adjusted Results is to reflect commodity sales and purchases at contracted prices – i.e. at the all-in-hedged amount paid or received in respect of the delivery of the commodity in question, to better present the trading performance of the Group in Adjusted Results.		

	Six months ended 30 June		Year ended 31 December
	2020 (Unaudited) £m	2019 (Unaudited) £m	2019 (Audited) £m
Exceptional items:			
Acquisition and restructuring costs	**–**	(2.7)	(9.0)
Asset obsolescence charges	**(224.2)**	–	–
Exceptional items included within Operating profit	**(224.2)**	(2.7)	(9.0)
Cost of debt restructuring	–	(2.5)	(5.2)
Exceptional items included in Profit before tax	**(224.2)**	(5.2)	(14.2)
Taxation on exceptional items (1)	**38.3**	–	2.6
Exceptional items after taxation	**(185.9)**	(5.2)	(11.6)
Remeasurements:			
Net remeasurements included in Gross profit	**108.3**	1.4	(132.8)
Net remeasurements included in Net interest	**(0.4)**	0.2	2.0
Taxation on certain remeasurements	**(20.6)**	(0.3)	24.8
Remeasurements after taxation	**87.3**	1.3	(106.0)
Reconciliation:			
Adjusted Results	**42.9**	7.8	118.1
Exceptional items after tax	**(185.9)**	(5.2)	(11.6)
Remeasurements after tax	**87.3**	1.3	(106.0)
(Loss)/profit after tax	**(55.7)**	3.9	0.5

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

7. Dividends

	Pence per share	Six months ended 30 June 2020 (Unaudited) £m	Six months ended 30 June 2019 (Unaudited) £m	Year ended 31 December 2019 (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 2019 paid 15 May 2020	**9.5**	**37.7**	–	–
Interim dividend for the year ended 31 December 2019 paid 11 October 2019	6.4	–	–	25.4
Final dividend for the year ended 31 December 2018 paid 10 May 2019	8.5	–	33.5	33.5
		37.7	33.5	58.9

On 28 July 2020, the Board resolved to pay an interim dividend of 6.8 pence per share (£27.1 million), representing 40% of the expected full year dividend in line with our dividend policy. The interim dividend will be paid on 2 October 2020 and the record date for entitlement to the dividend will be on 21 August 2020.

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

The Parent Company has distributable reserves at 30 June 2020 of £219.5 million. Sufficient reserves are available across the Group as a whole to make future distributions in accordance with the Group's dividend policy for the foreseeable future.

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

The immediate cash resources of the Group of £481.5 million, comprised of cash and cash equivalents that are accessible on demand. The recent history of operating cash generation is set out in note 11.

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

8. Earnings per share

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

	Six months ended 30 June 2020 (Unaudited)	Six months ended 30 June 2019 (Unaudited)	Year ended 31 December 2019 (Audited)
(Loss)/earnings attributable to equity holders of the Company £m	**(55.7)**	3.9	0.5
Number of shares:			
Weighted average number of ordinary shares for the purposes of basic loss/earnings per share (millions)	**396.7**	394.3	395.5
Effect of dilutive potential ordinary shares under share plans (millions)	**–**	2.7	1.9
Weighted average number of ordinary shares for the purposes of diluted loss/earnings per share (millions)	**396.7**	397.0	397.4

(Loss)/earnings per share – basic (pence)	**(14.0)**	1.0	0.1
(Loss)/earnings per share – diluted (pence)	**(14.0)**	1.0	0.1

Shares purchased under the Group's share buy-back programme are not included in the weighted average calculation of shares. For the purpose of calculating diluted earnings per share, the weighted average calculation of shares excludes any share options that would have an anti-dilutive impact.

Application of the same calculation to Adjusted profit after tax of £42.9 million results in Adjusted basic EPS of 10.8 pence and Adjusted diluted EPS of 10.7 pence for the six months ended 30 June 2020 (six months ended 30 June 2019: Adjusted profit after tax of £7.8 million, Adjusted basic EPS of 2.0 pence and Adjusted diluted EPS of 2.0 pence). Deferred tax balances have been remeasured in the period due to the reversal of the planned reduction in the main UK Corporation tax rate to 17% being substantively enacted in March 2020. Total Results for the six months ended 30 June 2020 includes a charge of £9.8 million as a result of the effect of changes in tax rate (see note 5), of which £5.5 million is included in Adjusted Results for the period.

9. Coal closure

On 26 February 2020, following a comprehensive review, the Board determined to end commercial coal generation at Drax Power Station in March 2021, with the two coal units remaining available to meet Capacity Market obligations until September 2022, at which point they will be closed.

Asset obsolescence charges

Drax Power Station's coal generation assets and biomass generation assets had previously been assessed as being part of the same CGU, due to the interdependencies between these assets. Following a reduction in the significance of the interdependencies between the coal generation assets and the biomass generation assets over time, as of 26 February 2020 they have been assessed as being two separate CGUs. Following the coal generation assets becoming a separate CGU, an impairment review was undertaken.

The recoverable amount of the coal generation assets was determined based on a value in use calculation. This calculation uses cash flow projections based on the Group's established planning model approved by the Board covering the period through to coal closure in September 2022.

The calculation concluded that the recoverable amount of the coal CGU was significantly lower than the carrying amount of the coal generation assets in the Group's balance sheet. Accordingly, in the six months ended 30 June 2020, an asset obsolescence charge of £224.2 million has been recognised to write the coal generation assets down to their recoverable amount of £nil. Sensitivity analysis indicated that any reasonably possible changes in the key assumptions, which are the allocation of operating costs and discount rate, would not result in a materially different outcome.

The asset obsolescence charge and the associated deferred tax impact have been treated as exceptional items and excluded from the Group's Adjusted Results.

Provisions

The coal closure programme is expected to result in a reduction of between 200 and 230 jobs from April 2021. The impact of Covid-19 has resulted in some delays to the ongoing consultations with employees and trade unions and as a result the recognition criteria for termination benefits has not been met at the balance sheet date. As such, no provision for termination benefits or any other costs relating to the coal closure have been recognised as at 30 June 2020. Consultations are expected to be concluded in the second half of 2020 at which point any required provisions will be recognised.

The anticipated one-off costs of closure, comprising termination benefits and costs of disposal for associated assets, are in the region of £25–35 million.

10. Borrowings

In June 2020, the Group completed a three-year extension to the £125 million environmental, social and governance (ESG) facility agreement originally entered into during July 2019. This extended the contractual maturity of the facility to 2025. A proportion of the interest rate under this facility is variable based on the Group's total carbon dioxide emissions per GWh of electricity generation.

The Group has not entered into any new financing arrangements in the six months ended 30 June 2020.

In addition to the ESG facility, the Group's financing structure includes a £375 million UK infrastructure private placement with maturities extending out to between 2024–2029. It also includes £350 million 4.25% fixed rate loan notes, US $500 million loan notes with a fixed interest rate of 6.625%, which were swapped back to sterling upon issuance at an effective interest rate of circa 4.85%, a £350 million facility comprised of a Revolving Credit Facility (RCF) with a value of £315 million and an index-linked term loan of £35 million with a March 2022 maturity date.

The RCF matures in April 2021 and was undrawn at both 30 June 2020 and 31 December 2019. The Group has no other committed facilities, although it has access to certain non-recourse trade receivable finance facilities and payment facilities, as described in note 11, which are utilised to accelerate working capital cash inflows and defer cash outflows.

The weighted average interest rate payable at the balance sheet date on the Group's borrowings was 3.70% (as at 31 December 2019: 3.99%).

Analysis of borrowings

Changes in borrowings during the period were as follows:

	As at 30 June 2020 (Unaudited)		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
Borrowings at 1 January 2020	**1,267.5**	**(22.3)**	**1,245.2**
Cash movements:			
Extension of ESG facility	**–**	**(0.8)**	**(0.8)**
Non-cash movements:			
Indexation of linked loan	**0.3**	**–**	**0.3**
Amortisation of deferred finance costs (note 4)	**–**	**3.1**	**3.1**
Amortisation of USD loan note premium	**(0.2)**	**–**	**(0.2)**
Effect of foreign exchange rates[(1)]	**26.3**	**–**	**26.3**
Borrowings at 30 June 2020	**1,293.9**	**(20.0)**	**1,273.9**

(1) The Group has cross-currency interest rate swaps in place to hedge the sterling cash flows associated with the USD loan notes. In addition to fixing the sterling value of interest payments over a five-year period, this instrument fixes the sterling repayment of the principal at £367.5 million in 2023, the impact of which, if applied to the borrowings at 30 June 2020, would reduce borrowings by £36.4 million.

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

	As at 30 June 2020 (Unaudited)		
	Borrowings before deferred finance costs £m	**Deferred finance costs £m**	**Net borrowings £m**
2022 fixed rate loan notes	**350.0**	**(4.2)**	**345.8**
2025 US $500 million loan notes	**405.8**	**(5.5)**	**400.3**
Index-linked loan	**38.1**	**–**	**38.1**
UK Infrastructure private placement	**375.0**	**(8.3)**	**366.7**
ESG facility	**125.0**	**(2.0)**	**123.0**
Total borrowings	**1,293.9**	**(20.0)**	**1,273.9**
Split between:			
Current liabilities	–	–	–
Non-current liabilities	**1,293.9**	**(20.0)**	**1,273.9**

	As at 30 June 2019 (Unaudited)		

	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed rate loan notes	350.0	(6.4)	343.6
2025 US $500 million loan notes	396.1	(5.9)	390.2
Index-linked loan	37.5	–	37.5
Acquisition bridge facility	400.0	(2.6)	397.4
Total borrowings	1,183.6	(14.9)	1,168.7
Split between:			
Current liabilities	–	–	–
Non-current liabilities	1,183.6	(14.9)	1,168.7

	As at 31 December 2019 (Audited)		
	Borrowings before deferred finance costs £m	Deferred finance costs £m	Net borrowings £m
2022 fixed rate loan notes	350.0	(5.3)	344.7
2025 US $500 million loan notes	379.6	(5.9)	373.7
Index-linked loan	37.9	–	37.9
UK infrastructure private placement	375.0	(9.3)	365.7
ESG facility	125.0	(1.8)	123.2
Total borrowings	1,267.5	(22.3)	1,245.2
Split between:			
Current liabilities	–	–	–
Non-current liabilities	1,267.5	(22.3)	1,245.2

11. Cash generated from operations

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

	Six months ended 30 June		Year ended 31 December
	2020 (Unaudited) £m	2019 (Unaudited) £m	2019 (Audited) £m
(Loss)/profit for the period	**(55.7)**	3.9	0.5
Adjustments for:			
Interest payable and other charges	**33.3**	34.5	66.5
Interest receivable	**(0.5)**	(0.4)	(1.3)
Tax credit (note 5)	**(5.0)**	(0.4)	(3.3)
Depreciation and amortisation	**95.7**	102.6	207.9
(Gains)/losses on disposal of assets	**(0.9)**	–	1.2
Asset obsolescence charges	**224.2**	–	–
Other non-cash gains	**–**	–	(0.5)
Certain remeasurements of derivative contracts (1)	**(77.3)**	55.6	254.0
Defined benefit pension scheme current service cost	**4.2**	3.7	7.1
Share-based payments charge	**3.1**	1.6	2.7

Effect of foreign exchange rates	**(5.8)**	(3.5)	–
Operating cash flows before movement in working capital	**215.3**	197.6	534.8
Changes in working capital:			
Decrease/(increase) in inventories	**92.2**	(65.4)	(67.8)
Decrease/(increase) in receivables	**135.1**	79.6	(142.6)
Increase in payables	**4.0**	116.4	101.6
Decrease in carbon assets	**–**	0.3	4.3
(Increase)/decrease in ROC assets	**(213.4)**	(95.5)	54.0
Total cash released/(consumed) from working capital	**17.9**	35.4	(50.5)
Defined benefit pension scheme contributions	**(6.8)**	(4.2)	(13.1)
Cash generated from operations	**226.4**	228.8	471.2

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

The Group has a strong focus on cash flow discipline and uses various methods to manage liquidity. These methods, the most material of which are described in further detail below, have been used to a broadly consistent level throughout the year unless otherwise stated.

Cash from ROCs is typically realised several months after the ROC is earned; however, through standard ROC sales and ROC purchase arrangements the Group is able to accelerate cash flows over a proportion of these assets. The net impact on operating cash flows for the six months ended 30 June 2020 of accelerating cash flows through ROC purchases and ROC sales was an outflow of £82.4 million (six months ended 30 June 2019: £77.0 million inflow). The Group also has access to facilities enabling it to sell ROC trade receivables on a non-recourse basis. Utilisation of these facilities was £47.3 million at 30 June 2020 (as at 31 December 2019: £nil).

From time to time, when market conditions change, the Group can rebase foreign currency contracts (including cross-currency interest rate swaps). In the six months to 30 June 2020 this generated a working capital benefit, which is reflected as an adjustment to certain remeasurements of derivative contracts in the table above. The total cash benefit released from related trades that remained outstanding at 30 June 2020 was £146.6 million (as at 31 December 2019: £106.8 million). This cash benefit includes £87.8 million (as at 31 December 2019: £84.3 million) released from foreign currency contracts and £58.8 million (as at 31 December 2019: £22.5 million) from cross-currency interest rate swaps.

The Customers business has access to a facility which enables it to accelerate cash flows associated with trade receivables on a non-recourse basis. This facility generated a net cash outflow of £6.0 million in the six months ended 30 June 2020 (six months ended 30 June 2019: net £nil cash impact), reflected as an increase in receivables in the table above. The facility terms were amended in 2019, increasing the facility size to £200 million from £150 million. Utilisation of the facility was £156.2 million at 30 June 2020 (as at 31 December 2019: £162.2 million).

The Group has sought to normalise payments across its supplier base resulting in certain suppliers extending payment terms and some reducing terms. Suppliers are able to access a supply chain finance facility provided by a bank, for which the suppliers can receive funds in advance of the payment terms agreed with Drax. The facility does not affect the Group's working capital, as payment terms remain unaltered with the Group. At 30 June 2020, the Group had trade payables of £29.5 million (as at 31 December 2019: £33.1 million) related to reverse factoring. The Group also has access to a number of payment facilities to leverage scale and efficiencies in transaction processing, whilst providing a working capital benefit for the Group due to a short extension of payment terms within a normal working capital cycle. The amount outstanding under these facilities at 30 June 2020 was £104.2 million (as at 31 December 2019: £90.6 million).

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

12. Reconciliation of net debt

Net debt is calculated by taking the Group's borrowings (note 10) and subtracting cash and cash equivalents. The table below reconciles net debt in terms of changes in these balances across the year.

	As at 30 June		As at 31 December
	2020 **(Unaudited)** **£m**	2019 (Unaudited) £m	2019 (Audited) £m

Net debt at 1 January	**(841.1)**	(319.1)	(319.1)
Increase/(decrease) in cash and cash equivalents	**71.1**	(45.9)	121.9
Increase in net borrowings	**(2.4)**	(552.7)	(645.3)
Effect of changes in foreign exchange rates	**(20.0)**	(6.7)	1.4
Net debt at 30 June / 31 December	**(792.4)**	(924.4)	(841.1)

Borrowings include listed bonds, bank debt and revolving credit facilities, net of any deferred finance costs. Borrowings do not include other financial liabilities such as IFRS 16 lease liabilities, pension obligations and trade and other payables.

The Group has entered into cross-currency interest rate swaps, fixing the sterling value of the principal repayments in respect of the Group's USD denominated debt (see note 10). If USD balances are translated at the hedged rate, rather than the rate prevailing at the balance sheet date, borrowings would be reduced by £36.4 million (as at 31 December 2019: £12.2 million). The corresponding value of the hedging instrument is recognised at its fair value as a derivative financial instrument.

13. Financial risk management

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

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

As the Covid-19 pandemic has progressed there have been significant impacts to financial markets, albeit the full longer-term macro-economic effects remain uncertain. The associated principal risks to the Group are volatility in financial markets, including the impact of weaker sterling affecting the cost of biomass, the liquidity risk associated with potential increases in borrowing costs and the availability of debt financing.

The Group has financial risk management policies in place to mitigate and reduce exposure to these risks. A full review of these policies alongside market sensitivities has been completed in addition to an increased level of monitoring and actions to appropriately manage the risks.

The Group's well-established foreign exchange hedging programme manages the risk associated with its foreign currency exposure over a rolling five-year period with protection against sterling weakness in place out to 2025.

The Group maintains a mixture of cash and cash equivalents and committed facilities to ensure sufficient funding for business requirements. At 30 June 2020 the Group had cash and cash equivalents of £481.5 million, which alongside the committed but undrawn facilities provides significant headroom over and above the short-term liquidity requirements. In June, the Group completed a three-year extension to the £125 million ESG facility extending its contractual maturity to 2025. After taking into account the effect of hedging, all of the Group's borrowings are at fixed interest rates, mitigating the risk of increases.

Credit risk associated with derivatives and investing activities are diversified across a range of highly rated counterparties reducing counterparty exposures, in line with the Group's policy.

In addition to the financial market impact, the Group's Customers business is exposed to higher credit risk, where the impact of Covid-19 has increased the risk of potential customer failures and expected credit losses. The Group extended its trade credit insurance programme in 2019 and continues to use this facility, providing mitigation to the risk of potential customer failure.

Commodity price risk
The Group is exposed to the effect of fluctuations in commodity prices, particularly the price of electricity, gas, coal, sustainable wood fibre and pellets, other fuels, and CO_2 emissions allowances. Price variations and market cycles have historically influenced the financial results of the Group and are expected to continue to do so.

The Group has a policy of securing forward power sales, purchases of fuel and CO_2 emissions allowances when profitable to do so and in line with specified limits under approved policies. Forward power sales can be secured up to 100% of forecast availability two years out. All commitments to sell power under fixed-price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of power.

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

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

The Group purchases CO_2 emissions allowances under fixed-price contracts with different maturity dates from a range of domestic and international sources. All commitments to purchase CO_2 emissions allowances under fixed-price contracts are designated as cash flow hedges as they reduce the Group's cash flow exposure resulting from fluctuations in the price of CO_2 emissions allowances.

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

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

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

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

Interest rate risk
The Group has limited exposure to interest rate risk, principally in relation to cash and cash equivalents and floating rate debt instruments. The Group has taken out a fixed-to-fixed cross-currency interest rate swap to hedge the future cash flows associated with the US $500 million 2025 fixed rate loan notes, effectively converting them to sterling fixed rate cash flows. The Group has also taken out a floating-to-fixed swap to fix the interest payments on the £375 million private placement and the £125 million ESG facility. Through the use of these interest rates swaps the Group has fixed all of the market-based interest payments on its floating rate debt instruments. As such the Group has mitigated its exposure to interest rate risk in relation to its debt instruments.

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

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

In managing liquidity risk, the Group has the ability to accelerate the cash flows associated with certain working capital items, principally those related to ROC sales and Customers' energy supply sales. In each case, this is undertaken on a non-recourse basis and accordingly, the ROCs and other items are derecognised from the balance sheet at the point of sale. The Group also utilises standard purchasing facilities to extend the working capital cycle, whilst still paying suppliers on time.

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

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

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

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

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

In the Customers segment, credit risk is managed by checking a company's creditworthiness and financial strength both before commencing trade and during the business relationship. Credit risk is monitored and managed by business sector. In response to the increased risk from Covid-19, the Customers segment has increased minimum credit requirements and excluded a number of identified high-risk business types from its acquisition activity in the SME sector. The Customers segment also extended its trade credit insurance programme in late 2019 to increase its mitigation to credit risk. In addition, credit risk is transferred on the billed and unbilled receivables monetised through the non-recourse facility described in note 11.

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

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

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

Capital management
The Group manages its capital to ensure it is able to continue as a going concern; maintain a strong credit rating underpinned by robust financial metrics; invest in its core business and pay a sustainable and growing dividend while maximising the return to shareholders. The capital structure of the Group consists of shareholders' equity (excluding the hedge and cost of hedging reserves), plus net debt. Net debt is comprised of borrowings and cash and cash equivalents as disclosed in note 12.

The Group regularly explores options to optimise its debt capital structure. As part of this, in order to reduce interest costs, extend maturities and diversify finance sources, the Group will continue to monitor the availability of various financing options. Opportunities are evaluated in light of prevailing market conditions, taking into account current liquidity, available terms, execution risks and prospects for future access to capital.

14. Derivative financial instruments

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

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

Contracts which do not qualify for the own-use exemption and which can be settled net in cash or another financial instrument – principally power, gas, financial oil, financial coal, CO_2 emissions allowances, interest rate and inflation swaps, and forward foreign currency exchange contracts – are accounted for as derivatives in accordance with IFRS 9

and are recorded in the balance sheet at fair value (which is the difference between the price we have secured in the contract and the price we could achieve in the market at the balance sheet date). Changes in fair value are recognised in the hedge reserve (note 16) to the extent that the contracts are designated as effective hedges in accordance with IFRS 9, or the income statement where the hedge accounting requirements are not met. Where changes in fair value are recognised in the income statement, they are excluded from the Group's Adjusted Results, as described in the basis of preparation. The Group enters into forward contracts solely for the purpose of financial risk management and considers all of its contracts to be economic hedges (or components of a wider strategy to fix target prices), regardless of whether or not the specific criteria for hedge accounting are met.

For financial reporting purposes, the Group has classified derivative financial instruments into five categories:

- Commodity contracts – forward contracts for the sale or purchase of a physical commodity which is expected to be settled through physical delivery of the commodity.
- Financial contracts – freight and weather-related contracts, as well as contracts for commodities that are not expected to be settled through physical delivery of the commodity.
- Forward currency exchange contracts – currency related contracts including forwards, vanilla options and structured option products.
- Interest rate swaps – contracts which swap one interest rate for another, including floating-to-fixed single currency instruments and cross-currency interest rate swaps.
- Inflation rate swaps – swap contracts, such as floating-to-fixed, which are linked to an inflation index such as RPI or CPI.

	As at 30 June		As at 31 December
	2020 (Unaudited) £m	2019 (Unaudited)[1] £m	2019 (Audited) £m
Assets			
Commodity contracts	**95.8**	127.1	152.3
Financial contracts	**29.9**	21.2	33.7
Foreign exchange contracts	**385.7**	364.7	141.9
Interest rate swaps	**0.2**	41.7	1.7
Inflation rate swaps	**35.3**	–	16.4
Total assets	**546.9**	554.7	346.0
Split between:			
Non-current assets	**325.3**	327.1	152.3
Current asset	**221.6**	227.6	193.7
Liabilities			
Commodity contracts	**(94.1)**	(87.9)	(121.3)
Financial contracts	**(59.4)**	(17.3)	(46.2)
Foreign exchange contracts	**(29.4)**	(13.4)	(114.8)
Interest rate swaps	**(19.7)**	(3.6)	–
Inflation rate swaps	–	(13.6)	(7.1)
Total liabilities	**(202.6)**	(135.8)	(289.4)
Split between:			
Non-current liabilities	**(67.9)**	(40.6)	(72.9)
Current liabilities	**(134.7)**	(95.2)	(216.5)

(1) The balances in the above table for 30 June 2019 have been updated to reflect the additional categories presented in the Group's 2019 Annual Report and Accounts. This has had no impact on the total assets or total liabilities.

The total movement on the Group's derivative contract portfolio in the six months to 30 June 2020 was £287.7 million (six months ended 30 June 2019: £103.7 million), with £114.5 million (six months ended 30 June 2019: £1.6 million) relating to unhedged items being recognised in the income statement and £123.9 million (six months ended 30 June 2019: £61.5 million) and £49.3 million (six months ended 30 June 2019: £40.6 million) relating to hedged items being recognised in the hedge reserve and cost of hedging reserve respectively.

The total gross movement recognised in the hedge reserve and cost of hedging reserve of £129.7 million (six months ended 30 June 2019: £112.8 million) and £54.6 million (six months ended 30 June 2019: £37.1 million) respectively differs from the movement on the Group's derivative contract portfolio relating to hedged items recognised in the hedge reserve and cost of hedging in the year by £5.8 million (six months ended 30 June 2019: £51.3 million) and £5.3 million

(six months ended 30 June 2019: £4.5 million) respectively due to ineffectiveness recognised on hedged items, gains/(losses) retained in the hedge reserve and cost of hedging reserve relating to hedging instruments where the hedged item has not impacted the income statement yet, or the recycling of gains/(losses) on hedging instruments where the hedged item has impacted the income statement but the hedging instrument has not yet been realised.

The total unrealised gains/(losses) excluded from Adjusted Results in the period of £107.9 million (six months ended 30 June 2019: £1.6 million) differs from (six months ended 30 June 2019: were the same as) the movement on the Group's derivative contract portfolio relating to unhedged items by £6.6 million due to ineffectiveness recognised on hedged items being recognised in the income statement as unrealised gains/(losses) and due to gains/(losses) excluded from Total Results due to rebasing. The fair value of the rebased trades is recognised on the rebased rates, resulting in a reduction in the value of derivative financial instruments recognised. However, the gains relating to the cash received from rebasing are deferred from Adjusted Results until the contracts mature.

The change in fair value of the derivative portfolio in the period has been driven predominantly by changes in currency exchange rates and power prices. The Group has a large portfolio of forward currency contracts which fix the sterling cost of our future fuel purchases denominated in foreign currencies. Given the size of the portfolio, the fair value is highly sensitive to small changes in foreign currency exchange rates. The unrealised gains recognised in the first half of 2020 principally reflect the weakening of sterling as a result of Covid-19 impacting the market.

Fair value measurement

- **Commodity contracts fair value –** The fair value of open commodity contracts that do not qualify for the own-use exemption is calculated by reference to forward market prices at the balance sheet date. Given the maturity profile of these contracts, liquid forward market price curves are available for the duration of the contracts.
- **Forward foreign currency exchange contracts fair value –** The fair value of forward foreign currency exchange contracts is determined using forward currency exchange market rates at the balance sheet date.
- **Other financial contracts fair value –** The fair value of other financial contracts is calculated by reference to forward market prices at the balance sheet date. Given the maturity profile of these contracts, liquid forward market price curves are available for the duration of the contracts.

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

Categorisation within this fair value measurement hierarchy has been determined on the basis of the lowest level input that is significant to the fair value measurement of the relevant asset or liability.

The fair values of commodity contracts and financial contracts are largely determined by comparison of observable forward market prices with the contract price; therefore, these contracts are categorised at Level 2 of the fair value hierarchy under IFRS 13.

The Group holds certain derivative contracts with unobservable, and therefore Level 3, inputs (principally the CPI component of inflation swaps). However, in each case, these inputs are not material to the overall valuation and therefore the instruments as a whole are determined to be Level 2 in the fair value hierarchy.

15. Other financial instruments

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

Fair value

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

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

At 30 June 2020, the fair value of the Group's issued loan notes was £16.3 million in excess (as at 31 December 2019: £33.3 million in excess) of their carrying value of £755.8 million (as at 31 December 2019: £729.6 million) based on quoted market prices.

16. Hedge reserve

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

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

	As at 30 June 2020 (Unaudited)			
	Within 1 year £m	**1–2 years £m**	**2–5 years £m**	**Total £m**
Commodity contracts	**10.9**	**9.7**	**0.9**	**21.5**
Foreign exchange contracts	**76.7**	**24.2**	**73.6**	**174.5**
Interest rate swaps	**1.1**	**0.6**	**(3.7)**	**(2.0)**
Inflation rate swaps	**4.5**	**5.7**	**19.4**	**29.6**
	93.2	**40.2**	**90.2**	**223.6**

	As at 30 June 2019 (Unaudited)(1)			
	Within 1 year £m	1–2 years £m	2–5 years £m	Total £m
Commodity contracts	62.5	3.0	(0.1)	65.4
Foreign exchange contracts	77.2	68.9	57.7	203.8
Interest rate swaps	–	–	34.3	34.3
Inflation rate swaps	–	–	(12.2)	(12.2)
	139.7	71.9	79.7	291.3

(1) The balances in the above table for 30 June 2019 have been updated to reflect the additional categories presented in the Group's 2019 Annual Report and Accounts. This has had no impact on the total.

	As at 31 December 2019 (Audited)			
	Within 1 year £m	1–2 years £m	2–5 years £m	Total £m
Commodity contracts	62.1	8.0	1.5	71.6
Financial contracts	(3.0)	(0.3)	–	(3.3)
Foreign exchange contracts	58.4	(4.3)	(14.2)	39.9
Interest rate contracts	3.2	2.5	(6.0)	(0.3)
Inflation rate swaps	1.5	2.6	9.5	13.6
	122.2	8.5	(9.2)	121.5

17. Other reserves

	Capital redemption reserve £m	Merger reserve £m	Translation reserve Restated (1) £m	Total £m
At 1 January 2019	1.5	710.8	55.9	768.2
Other comprehensive expense	–	–	(11.2)	(11.2)

Total comprehensive expense for the year	–	–	(11.2)	(11.2)
31 December 2019	1.5	710.8	44.7	757.0
At 1 January 2019	1.5	710.8	55.9	768.2
Other comprehensive income	–	–	0.4	0.4
Total comprehensive income for the period	–	–	0.4	0.4
At 30 June 2019	1.5	710.8	56.3	768.6
At 1 January 2020	**1.5**	**710.8**	**44.7**	**757.0**
Other comprehensive income	–	–	**16.6**	**16.6**
Total comprehensive income for the period	–	–	**16.6**	**16.6**
At 30 June 2020	**1.5**	**710.8**	**61.3**	**773.6**

(1) Due to the historical correction of exchange differences arising on the translation of foreign operations, other reserves have been updated by £55.5 million to reflect the correct opening balance at 1 January 2019 and by £56.6 million to reflect the correct balance as at 30 June 2019. Other comprehensive income for the six months ended 30 June 2019 has been updated by £1.1 million to reflect to correct movement as a result of these changes. See note 19 for further details.

18. Contingencies

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

Guarantees
In addition to the amount drawn down against the bank loans, certain members of the Group guarantee the obligations of a number of banks in respect of letters of credit issued by those banks to counterparties of the Group. As at 30 June 2020, the Group's contingent liability in respect of letters of credit issued under the revolving credit facility amounted to £35.6 million (as at 31 December 2019: £77.0 million).

The Group also guarantees obligations in the form of surety bonds with a number of insurers. As at 30 June 2020 the Group's contingent liability in relation to these guarantees was £95.7 million (as at 31 December 2019: £96.1 million).

19. Prior period restatements

As described in the basis of preparation, the 30 June 2019 balance sheet has been restated in respect of the following items:

- During the second half of 2019, the acquisition date fair values of assets and liabilities acquired in the purchase of the portfolio of hydro, pumped storage and gas assets on 31 December 2018 were finalised. As a result, finalisation of the terms of the defined benefit pension scheme transfer resulted in a reduction in the net opening surplus recognised by £1.1 million. The finalisation of the Group's assessment of CGUs and their fair values resulted in a net £0.2 million reduction in property, plant and equipment values and a £0.1 million reduction in deferred tax liabilities recognised. All of these adjustments had corresponding impacts on goodwill.

- To reflect the correction of a historical error identified during the second half of 2019 in respect of the translation of fixed assets in the US-based business into the consolidated Group financial statements. Application of the correct foreign exchange rates resulted in an increase in property, plant and equipment carrying values as at 30 June 2019 and 1 January 2019 of £56.6 million and £55.5 million, respectively. As a result, other comprehensive income for the six months ended 30 June 2019 has also been restated by £1.1 million to reflect the additional movement in the translation reserve. The correction has no impact on previously reported profit or cash amounts.

- The Group rebased a number of forward foreign currency contracts in 2019. This released cash from the contracts with the gains being held on the balance sheet until the contracts mature. At 30 June 2019, the balance sheet included £42.9 million of such cash received from rebasing where the relating contracts had not yet matured and which was held in deferred income on the balance sheet. This was the first reporting period in which cash had been received from the rebasing of contracts, but the contracts had not yet matured. In the Group's 2019 Annual Report and Accounts the balance sheet presentation of the cash received was amended such that, rather than the fair value of the rebased contracts being based on the pre-rebased rates and cash

received being recognised as deferred income, the fair value of the rebased contracts are recognised based on the rebased rates and no deferred income is recognised. Accordingly, the 30 June 2019 comparatives have been restated to align with the application of the policy used in the Group's 2019 Annual Report and Accounts. This has resulted in a £42.9 million reduction in derivative assets and a £42.9 million reduction in deferred income in the 30 June 2019 balance sheet.

The impact on the previously reported amounts in the balance sheet as at 30 June 2019 and the statement of comprehensive income for the six months to 30 June 2019, due to the above restatements, are set out in the tables below.

Impact on the balance sheet as at 30 June 2019:

	As at 30 June 2019 previously reported (Unaudited) £m	Impact of finalisation of opening acquisition values £m	Impact of historical translation error £m	Impact of rebasing £m	**As at 30 June 2019 restated (Unaudited) £m**
Assets					
Non-current assets					
Goodwill	**247.0**	1.2	–	–	**248.2**
Intangible assets	**216.5**	–	–	–	**216.5**
Property, plant and equipment	**2,257.4**	(0.2)	56.6	–	**2,313.8**
Right-of-use assets	**25.2**	–	–	–	**25.2**
Other fixed asset investments	**2.1**	–	–	–	**2.1**
Retirement benefit surplus	**17.7**	(1.1)	–	–	**16.6**
Deferred tax assets	**33.1**	–	–	–	**33.1**
Derivative financial instruments	**329.0**	–	–	(1.9)	**327.1**
	3,128.0	(0.1)	56.6	(1.9)	**3,182.6**
Current assets					
Inventories	**287.9**	–	–	–	**287.9**
ROC assets	**312.2**	–	–	–	**312.2**
Trade and other receivables and contract-related assets	**389.3**	–	–	–	**389.3**
Derivative financial instruments	**268.6**	–	–	(41.0)	**227.6**
Cash and cash equivalents	**244.3**	–	–	–	**244.3**
	1,502.3	–	–	(41.0)	**1,461.3**
Liabilities					
Current liabilities					
Trade and other payables and contract-related liabilities	**(1,042.0)**	–	–	42.9	**(999.1)**
Lease liabilities	**(4.5)**	–	–	–	**(4.5)**
Current tax liabilities	**(12.0)**	–	–	–	**(12.0)**
Derivative financial instruments	**(95.2)**	–	–	–	**(95.2)**
	(1,153.7)	–	–	42.9	**(1,110.8)**
Net current assets	**348.6**	–	–	1.9	**350.5**
Non-current liabilities					
Borrowings	**(1,168.7)**	–	–	–	**(1,168.7)**
Lease liabilities	**(22.0)**	–	–	–	**(22.0)**
Derivative financial instruments	**(40.6)**	–	–	–	**(40.6)**
Provisions	**(53.9)**	–	–	–	**(53.9)**
Deferred tax liabilities	**(332.5)**	0.1	–	–	**(332.4)**
	(1,617.7)	0.1	–	–	**(1,617.6)**
Net assets	**1,858.9**	–	56.6	–	**1,915.5**
Shareholders' equity					
Issued equity	**47.3**	–	–	–	**47.3**

Share premium	**428.8**	–	–	–	**428.8**
Treasury shares	**(50.4)**	–	–	–	**(50.4)**
Hedge reserve	**291.3**	–	–	–	**291.3**
Cost of hedging reserve	**21.1**	–	–	–	**21.1**
Other reserves	**712.0**	–	56.6	–	**768.6**
Retained profits	**408.8**	–	–	–	**408.8**
Total shareholders' equity	**1,858.9**	–	56.6	–	**1,915.5**

Impact on total comprehensive income:

	Period ended 30 June 2019 £m
Total comprehensive income – as previously reported	**165.7**
Impact of historical translation error	1.1
Total comprehensive expense – restated	**166.8**

20. Adoption of new and amended accounting standards

A number of new and amended standards became effective for the first time in 2020. The Group adopted the following from 1 January 2020:

- IFRS 3 (amended) — Business Combinations – effective from 1 January 2020.
- IAS 1 (amended) — Presentation of Financial Statements and IAS 8 (amended) Accounting Policies, Changes in Accounting Estimates and Errors – effective from 1 January 2020.
- Conceptual Framework for Financial Reporting (amended) – effective from 1 January 2020.

'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform', which became effective on 1 January 2020, was adopted early by the Group on 1 January 2019 and was therefore reflected in the Group's Annual Consolidated Financial Statements for the year ended 31 December 2019.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective (and some of which were pending endorsement by the EU – marked by *):

- IFRS 10 (amended) — Consolidated Financial Statements and IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*
- IFRS 17 Insurance contracts – effective from 1 January 2023.*
- IAS 1 (amended) — Classification of Liabilities as Current and Non-current – effective from 1 January 2023.*
- IAS 16 (amended) — Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.*
- IAS 37 — Onerous Contracts — Cost of Fulfilling a Contract – effective from 1 January 2022.*
- IFRS 3 — Reference to the Conceptual Framework – effective from 1 January 2022.*
- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.*

The following standard was issued and effective but had not yet been endorsed by the EU and as such has not been applied in these financial statements:

- IFRS 16 (amended) — Covid-19 related Rent Concessions – effective from 1 June 2020.*

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Group.

21. Reproduction of comparative financial information

Income statement for year ended 31 December 2019

For information, the full income statement for the year ended 31 December 2019 is reproduced below.

Consolidated income statement

	Year ended 31 December 2019 (Audited)		
	Adjusted Results[1] £m	Exceptional items and certain remeasurements £m	Total Results £m
Revenue	4,702.9	10.5	4,713.4
Total cost of sales	(3,835.8)	(143.3)	(3,979.1)
Gross profit	**867.1**	**(132.8)**	**734.3**
Operating and administrative expenses	(439.3)	–	(439.3)
Impairment losses on trade receivables	(18.0)	–	(18.0)
Adjusted EBITDA[2]	**409.8**		
Depreciation	(165.9)	–	(165.9)
Amortisation	(42.0)	–	(42.0)
Loss on disposal	(1.2)	–	(1.2)
Other gains	3.1	–	3.1
Acquisition and restructuring costs [3]	–	(9.0)	(9.0)
Operating profit/(loss)	**203.8**	**(141.8)**	**62.0**
Foreign exchange gains/(losses)	(1.6)	2.0	0.4
Interest payable and similar charges [4]	(61.3)	(5.2)	(66.5)
Interest receivable	1.3	–	1.3
Profit/(loss) before tax	**142.2**	**(145.0)**	**(2.8)**
Tax			
- Before effect of changes in rate of tax	(22.3)	27.4	5.1
- Effect of changes in rate of tax	(1.8)	–	(1.8)
Total tax credit	**(24.1)**	**27.4**	**3.3**
Profit/(loss) for the period attributable to equity holders	**118.1**	**(117.6)**	**0.5**
Earnings per share	pence		pence
– Basic	29.9		0.1
– Diluted	29.7		0.1

All results relate to continuing operations.

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

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

(3) Acquisition and restructuring costs include costs associated with the integration of Drax Generation Enterprise Limited (formerly ScottishPower Generation Limited).

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

Consolidated statement of comprehensive income

	Year ended 31 December 2019 (Audited) £m
Profit for the period	**0.5**
Items that will not be reclassified subsequently to profit or loss:	
Actuarial losses on defined benefit pension scheme	(21.5)
Deferred tax on actuarial gains on defined benefit pension scheme	4.3

Loss on equity investments	(0.1)
Net fair value gains on cost of hedging	56.3
Deferred tax on cost of hedging	(9.7)
Net fair value gains on cash flow hedges	(112.8)
Deferred tax on cash flow hedges	25.0
Items that may be subsequently reclassified to profit or loss:	
Exchange differences on translation of foreign operations	(11.2)
Net fair value gains on cash flow hedges	91.1
Deferred tax on cash flow hedges	(19.9)
Other comprehensive income for the period	**1.5**
Total comprehensive income for the period attributable to equity holders	**2.0**

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 2020 which comprises the Condensed consolidated income statement, Condensed consolidated statement of comprehensive income, the Condensed consolidated balance sheet, the Condensed consolidated statement of changes in equity, the Condensed consolidated cash flow statement and related notes 1 to 21. We have read the other information contained in the half - yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

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

As disclosed in the basis of preparation above, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half–yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting' as adopted by the European Union.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half - yearly financial report for the six months ended 30 June 2020 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure Guidance and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

28 July 2020

Glossary

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

Adjusted Results
Business performance after adjusting for material, one-off exceptional items and certain remeasurements on derivative contracts.

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

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

BECCS
Bioenergy, carbon capture and storage system, with CO_2 resulting from power generation captured and stored.

BEIS
The Government Department for Business, Energy and Industrial Strategy, bringing together the responsibilities for business, industrial strategy, science, innovation, energy and climate change (formerly DECC).

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

Black start
The procedure used to restore power in the event of a total or partial shutdown of the national electricity transmission system.

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

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

Combined Cycle Gas Turbines (CCGT)
A form of highly efficient energy generation technology that combines a gas-fired turbine with a steam turbine.

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

ESG
Environmental, social and governance.

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

Forced outage
Any reduction in plant availability, excluding planned outages.

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

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

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

IFRS
International Financial Reporting Standards.

Inertia
The stored energy in the large rotating mass of a generator, which assists in maintaining system stability. Wind and solar power sources have no inertia.

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

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

Open Cycle Gas Turbine (OCGT)
A free-standing gas turbine, using compressed air, to generate electricity.

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

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

Response

Automatic change in generator output aimed at maintaining a system frequency of 50Hz. Frequency response is required in every second of the day.

RIDDORS
Reporting of Injuries, Diseases and Dangerous Occurrences Regulations.

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

Summer
The calendar months April to September.

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

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

Total Results
Financial performance calculated in accordance with IFRS.

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

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

Winter
The calendar months October to March.

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