Agenda

Regulation and Biomass
H1 2012 Business and Market Review
Dorothy Thompson
Chief Executive

H1 2012 Financial Review
Tony Quinlan
Finance Director
H1 2012 Summary
Dorothy Thompson - Chief Executive

Biomass R&D – very encouraging engineering progress

Government decisions support transformation to predominantly biomass-fuelled generator

H1 2012 profits in line with expectations – continued strength in operations

Strong hedge – doubled 2013 forward sales at good margins

EBITDA
£154m

Underlying Earnings Per Share
28.9p

Interim Dividend
14.4p/share (£53m)
Regulation
Unit Conversion – the Context

January 2010 – conversion strategy

October 2011 – Banding Review Consultation

October 2011 to July 2012

- Government support for biomass
- Tilbury demonstration
- Wide generator enthusiasm for co-firing / conversion
- Further information requests

25 July – Banding Review decision

Attractions of conversion
Regulation
ROC Banding Review Decision

Consultation conclusions
1.0 ROC awarded for units fully converted to biomass
10% additives allowed in converted units
First unit conversions permitted in April 2013
Sustainability criteria grandfathered to 2020
  Subject to no EU restrictions

Other Consultation points
Low / uneconomic support for co-firing below 50%
  Avoids ‘gaming’ by restricting biomass generation at low levels of investment
Develop tools to manage 2014+ co-firing and conversion
  Protection against a ‘dash’ to biomass
Biomass R&D Work
Combustion Trials

Proven technical feasibility of unit conversion
- High availability at 90% biomass

Trialled range of additives to:
- Enable high availability
- Contribute to efficiency and output performance

Analysing test results for efficiency and load ranges
- Unmodified unit – adverse impact on efficiency and output
- Optimised unit – very encouraging progress
  - Achieved through plant re-engineering and additives
- Work on-going, alongside reviews of:
  - Corrosion test results
  - Optimisation of NOx performance

Successful trials underpin confidence that first converted unit will be available in Q2 2013
## Biomass Sourcing
### Supply Chain Update

<table>
<thead>
<tr>
<th>Fibre</th>
<th>Harvesting</th>
<th>Pellet plant</th>
<th>Overseas rail</th>
<th>Overseas port</th>
<th>Shipping</th>
<th>UK port</th>
<th>UK rail</th>
</tr>
</thead>
</table>

### Further progress in fuel contracting
- Secured rights to 2Mt biomass for 2013 ROC year
- Progressed term contracts for 2013 and beyond
- Advanced strategic partnerships for forestry sources
- Momentum will increase following Banding Review decisions

### Advancing port, shipping and rail arrangements
- Facilities and assets under development with key agreements progressed

### Development of pellet plants
- Sites identified and first planning / permit applications submitted
- First investment decisions targeted end 2012
- Phased to support second unit conversion

Sustainable biomass supply chain developed for 3 converted units within 5 years
H1 2012 Business Review
Operational Performance

Maintaining world class standards of safety and availability

85% Availability (H1 2011: 86%)

4.4% Forced Outage Rate (H1 2011: 4.2%)
- 10.8% Planned Outage Rate (H1 2011: 9.8%)
- Net generation 13.6TWh (H1 2011: 13.1TWh)
- Long-term FOR target of 5%

82% Load Factor (H1 2011: 80%)

Turbine upgrade completed – efficiency c. 40%

Estimated UK Plant Load Factors

<table>
<thead>
<tr>
<th>Plant</th>
<th>Average H1 2012 Load Factor (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drax</td>
<td>82%</td>
</tr>
<tr>
<td>Large nuclear</td>
<td>74%</td>
</tr>
<tr>
<td>Coal (excl. Drax)</td>
<td>55%</td>
</tr>
<tr>
<td>Gas</td>
<td>28%</td>
</tr>
</tbody>
</table>

Drax Fuel Mix (with %'s based on burn by heat)

<table>
<thead>
<tr>
<th></th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>12m 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tonnes</td>
<td>Mix%</td>
<td>Tonnes</td>
</tr>
<tr>
<td>Coal</td>
<td>4.6Mt</td>
<td>87%</td>
<td>4.6Mt</td>
</tr>
<tr>
<td>Pond Fines</td>
<td>0.4Mt</td>
<td>4%</td>
<td>0.3Mt</td>
</tr>
<tr>
<td>Petcoke</td>
<td>0.1Mt</td>
<td>2%</td>
<td>0.0Mt</td>
</tr>
<tr>
<td>Biomass</td>
<td>0.1Mt</td>
<td>2%</td>
<td>0.6Mt</td>
</tr>
<tr>
<td>Biomass R&amp;D</td>
<td>0.4Mt</td>
<td>5%</td>
<td>-</td>
</tr>
</tbody>
</table>

(1) TRIR = Total Recordable Injury Rate, LTIR = Lost Time Injury Rate
TRIR first quartile benchmark worsened to 1.2 in 2009 Solomons LLC
(2) Drax estimate of average load factor for January to May 2012 based on settlement data
H1 2012 Business Review

Haven Power Update

Credit efficient route to market
- Credit risk more controllable than collateral risk

Targeting 10 - 15TWh business
- Industrial & Commercial ("I&C") and Small & Medium Enterprises ("SME") markets
- I&C contracts mainly flexible price beyond first year

Substantial growth delivered
- H1 2012 retail sales £219m (H1 2011: £115m)
- 4.4TWh fixed price contracted for next 12 months
- Bad debt experience remains low

Increased competition across business market – sales growth remains business priority
- Now expect modest loss 2012 – 2015

(1) Haven acquisition date: March 2009
(2) NBP = Notional Balancing Point
H1 2012 Business Review
Trading

<table>
<thead>
<tr>
<th>Positions Under Contract as at 23 July 2012</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Sales - TWh</td>
<td>26.3</td>
<td>16.8</td>
<td>4.4</td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Fixed price TWh at average achieved price £ per MWh</td>
<td>22.7 @ 51.9</td>
<td>14.2 @ 51.8</td>
<td>1.8 @ 54.9</td>
</tr>
<tr>
<td>• Fixed margin and structured contracts TWh</td>
<td>3.6</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Carbon – TWh equivalent</td>
<td>26.0</td>
<td>16.5</td>
<td>4.3</td>
</tr>
<tr>
<td>Emissions allowances hedged (including UK NAP allocation, market purchases, structured contracts and benefit of biomass co-firing)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Solid Fuel – TWh equivalent</td>
<td>27.1</td>
<td>18.6</td>
<td>11.3</td>
</tr>
<tr>
<td>At fixed price / hedged (including structured contracts)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Almost fully hedged for 2012; more than doubled 2013 hedge since 31 Dec 2011

Alternative trading strategy will be implemented alongside biomass expansion
- Two generation businesses – biomass and coal
Market Review: Power

UK power market
- Power prices continue to be driven by gas market

Despatch dynamics
- Plant efficiencies significant factor in load profiles
  - Different load factors for same fuel plant
  - Low GSS resulted in gas plant capacity withdrawn / considered for closure
  - Closure date announced for several opted-out coal plants

System balancing support
- Drax will continue to play a significant role
- Wind output now ranges from nil – 6GW
  - Summer / Winter low demand is c. 20GW / 32GW

Bark spread weakened on lower power price

Sources: Brokered Data, Drax assumptions, and based on market prices on 20 July 2012
Market Review: Gas

Fukushima impact on global LNG market continues

- Japanese nuclear constrained
  - 2 of 54 reactors in operation
- Increased Asian LNG prices limits UK spot market attractiveness
  - Reduced LNG imports

UK spot gas prices remain strong

- Prices pulled towards oil indexed European prices to attract imports
- Prices remain at a premium to US prices

Increased UK import dependency

- Continued decline of UKCS

Source: European Benchmark Price (EBP™ Index): Eclipse Energy Group, NBP and Henry Hub; Bloomberg and Brokered Trades. EBP is a trademark owned by Eclipse Energy Group
Market Review: Steam Coal

Weak global prompt market – excess supply

Low US gas prices drive US coal exports
- US exports to EU up > 70% YoY
- Switching from coal to gas generation
- High stocks at US coal generators

Colombian and Australian Q1 exports up c. 20% YoY

Chinese imports remain strong but not enough to absorb over supply
- Lower than expected demand – record high stocks in China

API2 prompt prices down 20% in 2012
- Low international prices
- High stocks in Europe
- US and Colombian cargos now targeting Pacific market

UK domestic coal producers under pressure
H1 2012 Financial Review - Highlights
Tony Quinlan - Finance Director

EBITDA
£154m

Net Cash (2)
£233m

Underlying Earnings Per Share (1)
28.9p

Interim Dividends
14.4p/share (£53m)

✓ H1 2012 profits – in line with expectations
✓ After additional biomass costs
✓ Continued strength in operations
✓ Strong hedge – doubled 2013 forward sales at good margins
✓ Strong balance sheet
✓ Funding – initial steps taken for biomass transformation

(1) Excludes unrealised gains on derivative contracts totalling £21m (less tax effect)
(2) Cash of £241m (comprising cash of £231m and short term investments £10m) less borrowings of £8m
## H1 2012 Financial Review

### Income Statement - Summary

<table>
<thead>
<tr>
<th></th>
<th>H1 2012</th>
<th>H1 2011</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>868</td>
<td>866</td>
<td>L</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td>(613)</td>
<td>(585)</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>255</td>
<td>281</td>
<td>-9%</td>
</tr>
<tr>
<td><strong>Operating Costs</strong></td>
<td>(101)</td>
<td>(91)</td>
<td>11%</td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>154</td>
<td>190</td>
<td>-19%</td>
</tr>
<tr>
<td><strong>IAS39 Unrealised Gains on Derivative Contracts</strong></td>
<td>21</td>
<td>25</td>
<td></td>
</tr>
<tr>
<td><strong>Depreciation</strong></td>
<td>(28)</td>
<td>(28)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>147</td>
<td>187</td>
<td></td>
</tr>
<tr>
<td><strong>Net Finance Costs</strong></td>
<td>(6)</td>
<td>(18)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit Before Tax</strong></td>
<td>141</td>
<td>169</td>
<td></td>
</tr>
<tr>
<td><strong>Tax Charge – Before Exceptional Items</strong></td>
<td>(20)</td>
<td>(35)</td>
<td></td>
</tr>
<tr>
<td><strong>Exceptional Tax Credit</strong></td>
<td>-</td>
<td>198</td>
<td></td>
</tr>
<tr>
<td><strong>Reported Earnings</strong></td>
<td>121</td>
<td>332</td>
<td>-9%</td>
</tr>
<tr>
<td><strong>Underlying Earnings</strong></td>
<td>106</td>
<td>117</td>
<td>-9%</td>
</tr>
<tr>
<td><strong>Reported Earnings Per Share (pence)</strong></td>
<td>33</td>
<td>91</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Earnings Per Share (pence)</strong></td>
<td>28.9</td>
<td>31.9</td>
<td>-9%</td>
</tr>
<tr>
<td><strong>Total Dividends Per Share (pence)</strong></td>
<td>14.4</td>
<td>16.0</td>
<td>-10%</td>
</tr>
</tbody>
</table>
### H1 2012 Financial Review

#### Income Statement – Revenue

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>868</td>
<td>866</td>
</tr>
<tr>
<td>Wholesale Power Sales</td>
<td>627</td>
<td>733</td>
</tr>
<tr>
<td>Retail Power Sales</td>
<td>219</td>
<td>115</td>
</tr>
<tr>
<td><strong>Electrical Output (Net Sales) (TWh)</strong></td>
<td>13.6</td>
<td>13.1</td>
</tr>
<tr>
<td>Average Achieved Price (£ per MWh)</td>
<td>52.0</td>
<td>55.3</td>
</tr>
<tr>
<td>ROC/LEC Sales</td>
<td>11</td>
<td>6</td>
</tr>
<tr>
<td>Ancillary Services</td>
<td>6</td>
<td>8</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total Other Revenues</strong></td>
<td>22</td>
<td>18</td>
</tr>
</tbody>
</table>

#### Power Prices

Sources: Brokered Trades, Spectron
### H1 2012 Financial Review

#### Income Statement – Cost of Sales

<table>
<thead>
<tr>
<th></th>
<th>H1 2012</th>
<th>H1 2011</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Cost of Sales</strong></td>
<td>£613m</td>
<td>£585m</td>
</tr>
<tr>
<td><strong>Fuel and Carbon Costs</strong></td>
<td>£455m</td>
<td>£445m</td>
</tr>
<tr>
<td><strong>Cost of Power Purchases</strong></td>
<td>£58m</td>
<td>£78m</td>
</tr>
<tr>
<td><strong>Grid Charges and Other Retail Cost of Sales</strong></td>
<td>£100m</td>
<td>£62m</td>
</tr>
<tr>
<td><strong>Average Fuel Cost (excl. CO₂ costs)</strong></td>
<td>£30.7/MWh</td>
<td>£29.8/MWh</td>
</tr>
<tr>
<td><strong>Average Fuel Cost (incl. CO₂ costs)</strong></td>
<td>£33.5/MWh</td>
<td>£34.1/MWh</td>
</tr>
<tr>
<td><strong>Average Cost of Purchased CO₂ Allowances</strong></td>
<td>£5.9/tonne</td>
<td>£13.0/tonne</td>
</tr>
</tbody>
</table>

(1) H1 2012 includes £15m additional biomass research and development costs (full year impact c. £20m)

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#### Coal Prices (API 2)

- **Source**: McCloskeys, Brokered Trades

- **Coal Prices (API 2)**

- **Carbon Prices**

- **Source**: ICE ECX
Operating Costs – £101m in H1 2012

H1 2012 total operating cost increase £10m
- Underlying costs + £7m
- Investment in growth +£3m
  Haven, biomass R&D

Full year 2012 operating cost guidance unchanged at £205m
- Double outage and business rates +£20m (12%)
- Underlying cost inflation: +£8m (5%)
- Investment in growth: +£10m (6%)
H1 2012 Financial Review

Capital Investment

**Capital Investment – £90m in H1 2012**
- Includes £70m for biomass project

Capex guidance for 2012: £200m
- Includes c.£170m for biomass project
- Substantial equipment installations and modifications at Drax site
  - Biomass delivery, storage and distribution systems

Refining details of previously announced £650m – £700m capital investment plan
- Remain confident of the overall scale

**New Biomass Delivery and Storage Systems**
H1 2012 Financial Review
Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Cash</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>£268m</td>
</tr>
<tr>
<td>Working capital and Other</td>
<td>£4m</td>
</tr>
<tr>
<td>Tax</td>
<td>(£30m)</td>
</tr>
<tr>
<td>Capex</td>
<td>(£77m)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(£43m)</td>
</tr>
<tr>
<td>Closing Cash</td>
<td>£241m</td>
</tr>
</tbody>
</table>

**Working Capital and Other**
- Coal stocks (£22m)
  - 0.6Mt increase to 2.0Mt
- Other net inflow (+£26m)

**Tax**
- Settlement of 2011 liability

**Capex**
- Includes payments for biomass project (£55m)

**Dividends**
- Final 2011 dividend of 11.8p/share

**Closing Cash**
- Cash (£231m) and short term deposits (£10m)
H1 2012 Financial Review
Debt Facilities and Funding

Core facilities mature 30 April 2014
- £310m Revolving Credit Facility
  - Margin 200bps
  - Available for LCs or working capital
- £135m Trading Facility
- Rating: BBB- stable

Initial steps taken towards funding biomass transformation

New £100m amortising term loan facility commitment agreed in July
- M&G UK Companies Financing Fund
- Competitive pricing
- 6 to 8 year maturity

Strong balance sheet provides solid foundation for remaining funding requirements
- Net cash June 2012: £233m

Other important considerations for funding
- Working capital, foreign exchange, credit rating
- Trading strategy
H1 2012 Financial Review

Summary

H1 2012 profits in line with expectations
- Continued strength in operations

Strong hedge – doubled 2013 forward sales at good margins

Initial steps taken towards funding biomass transformation
- £100m amortising term loan facility commitment
- Strong balance sheet; net cash £233m

Interim dividend for 2012 of 14.4p / share (£53m)
- 50% underlying earnings for the period
Conclusion

Biomass R&D – very encouraging engineering progress

Government decisions support transformation to predominantly biomass-fuelled generator

H1 2012 profits in line with expectations – continued strength in operations

Strong hedge – doubled 2013 forward sales at good margins
Questions
Appendices

1. Definitions
2. Financial Calendar
3. IAS39 Treatment
4. Commodity Markets
5. Gas Market
6. Coal Market
7. Carbon Market
8. Carbon Price Support
9. UK Generation Capacity
10. Biomass Fuels
11. ROC Banding Review – Final Bands
12. ROC Mechanics
13. CCS Update
### Appendix 1: Definitions

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>API2/4/6</td>
<td>API2 is the main reference price (including cost, freight and insurance) for steam coal to be delivered to Amsterdam, Rotterdam and Antwerp. API4 is the reference price for steam coal to be delivered free on board (&quot;FOB&quot;) to Richards Bay, South Africa. API6 is the reference price for steam coal to be delivered FOB to Newcastle, Australia.</td>
</tr>
<tr>
<td>AVERAGE ACHIEVED PRICE</td>
<td>Power revenues divided by volume of net sales (includes imbalance charges).</td>
</tr>
<tr>
<td>BM</td>
<td>BALANCING MECHANISM</td>
</tr>
<tr>
<td>CESP</td>
<td>COMMUNITY ENERGY SAVING PROGRAMME</td>
</tr>
<tr>
<td>DECC</td>
<td>DEPARTMENT FOR ENERGY AND CLIMATE CHANGE</td>
</tr>
<tr>
<td>DIRECT INJECTION</td>
<td>A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.</td>
</tr>
<tr>
<td>EBITDA</td>
<td></td>
</tr>
<tr>
<td>ELV</td>
<td>EMISSION LIMIT VALUES</td>
</tr>
<tr>
<td>EUA</td>
<td>EU ALLOWANCE</td>
</tr>
<tr>
<td>EU ETS</td>
<td>EU EMISSIONS TRADING SCHEME</td>
</tr>
<tr>
<td>IUK</td>
<td>INTERCONNECTOR UK</td>
</tr>
<tr>
<td>LCPD</td>
<td>LARGE COMBUSTION PLANT DIRECTIVE</td>
</tr>
<tr>
<td>LEC</td>
<td>LEVY EXEMPTION CERTIFICATE</td>
</tr>
</tbody>
</table>
## Appendix 1: Definitions

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG</td>
<td>LIQUIFIED NATURAL GAS</td>
</tr>
<tr>
<td>LTIR</td>
<td>LOST TIME INJURY RATE The frequency rate calculated on the following basis (number of accidents/hours worked * 100,000). Accidents are defined as occurrences where the injured party is absent from work for more than 24 hours.</td>
</tr>
<tr>
<td>NERP</td>
<td>NATIONAL EMISSIONS REDUCTION PLAN One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO(_x), SO(_2) and particulate which will be incorporated into the forthcoming PPC permit.</td>
</tr>
<tr>
<td>NO(_x)</td>
<td>Nitrogen oxides, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>OFGEM</td>
<td>OFFICE FOR GAS AND ELECTRICITY MARKETS</td>
</tr>
<tr>
<td>OPTED-IN / OPTED-OUT</td>
<td>An opted-in plant is a power station that has elected to comply with the LCPD emissions standards. Opted-out plant has not elected to comply and is therefore only permitted to run for 20,000 hours and must in any event close by the end of 2015.</td>
</tr>
<tr>
<td>POND FINES</td>
<td>Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.</td>
</tr>
<tr>
<td>RO</td>
<td>RENEWABLES OBLIGATION The obligation placed on licensed electricity suppliers to deliver a specified amount of their electricity from eligible renewable sources.</td>
</tr>
<tr>
<td>ROC</td>
<td>RENEWABLES OBLIGATION CERTIFICATE The obligation requires licensed electricity suppliers to ensure that specified and increasing amounts of the electricity they supply are from renewable sources. Eligible generators of electricity using renewable energy sources receive a pre-specified number of ROCs per MWh of renewable power generation dependant on date of commission and technology. These certificates can then be traded.</td>
</tr>
<tr>
<td>ROSPA</td>
<td>ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS</td>
</tr>
<tr>
<td>SCR</td>
<td>SELECTIVE CATALYTIC REDUCTION Converting nitrogen oxides with the aid of a catalyst into diatomic nitrogen and water. A gaseous reductant, typically anhydrous ammonia, is added to a stream of flue gas and absorbed onto a catalyst.</td>
</tr>
<tr>
<td>SO(_2)</td>
<td>Sulphur dioxide, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>TRIR</td>
<td>TOTAL RECORDABLE INJURY RATE TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries)/ hours worked * 100,000.</td>
</tr>
<tr>
<td>UKCS</td>
<td>UK CONTINTENTAL SHELF Gas reserves found off shore in UK waters.</td>
</tr>
<tr>
<td>UK NAP</td>
<td>UK NATIONAL ALLOCATION PLAN Allocation of UK emissions allowances at the national level to individual sites under EU ETS.</td>
</tr>
</tbody>
</table>
Appendix 2: Financial Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ordinary shares marked ex-interim dividend</td>
<td>26 September</td>
</tr>
<tr>
<td>Record date for interim dividend</td>
<td>28 September</td>
</tr>
<tr>
<td>Payment date for interim dividend</td>
<td>12 October 2012</td>
</tr>
<tr>
<td>Interim Management Statement</td>
<td>13 November</td>
</tr>
<tr>
<td>Financial year end</td>
<td>31 December</td>
</tr>
</tbody>
</table>
## Appendix 3: IAS39 Treatment

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Location of gains and losses in the 2012 Half Year Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>Hedge Reserve</td>
</tr>
<tr>
<td>International Coal</td>
<td>Hedge Reserve and Income Statement</td>
</tr>
<tr>
<td>Financial Coal</td>
<td>Largely Income Statement</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>Hedge Reserve and Income Statement</td>
</tr>
<tr>
<td>Interest Rate Swaps</td>
<td>Largely Income Statement</td>
</tr>
<tr>
<td>Carbon</td>
<td>Hedge Reserve</td>
</tr>
</tbody>
</table>
Appendix 4: Commodity Markets

UK Forward Spread Movements – to 20 July 2012

Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49%
Appendix 4: Commodity Markets
Commodity Price Movements – to 20 July 2012

Forward Power Price

Forward Coal Price (API 2)

Forward Gas Price

Carbon Price (EUA)

Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI

Source: Brokered Trades, McCloskey

Source: Brokered Trades, Spectron

Source: ICE ECX
Appendix 5: Gas Market
European to UK Gas Price Differentials

Sources: European Benchmark Price (EBP™ Index): Eclipse Energy Group
NBP Brokered Trades. EBP is a trademark owned by Eclipse Energy Group.
Appendix 6: Coal Market

API2, API4, Implied Freight Calendar 2012 ($/t)

Source: Brokered Trades & McCloskey
Appendix 7: Carbon Market

Lowest EUA price for over 2 years

Driven by expected Phase II over supply
- Fear over European economies
- New Entrant Reserve (300Mt) now coming to market
- Continued high CER issuance
- Forecast growth in Emission Reduction Units (ERU) issuance

Phase II surplus bankable into Phase III (2013 to 2020)

Considerable opposition across Europe to attempt to increase Phase III ambition beyond 20%

Possible withdrawal of EUAs

Introduction of UK CO₂ price support

EUA movements since January 2010

Source: ICE

Carbon Price Support Impact on DGS

Sources: Drax Assumptions, Brokered Trades
Appendix 8: Carbon Price Support

Introduced in Budget 2011 – effective April 2013

Climate Change Levy (CCL) amended to indirectly supplement EU ETS carbon price

- Based on fuel (coal) consumption

Tax per tonne CO₂ set annually – 2 years in advance

- Based on difference between Government’s (HMT) target carbon price trajectory and traded price
- For 2013 this is £19 - £14 = £5/tonne CO₂; equivalent to £12/tonne coal
- For 2014 this is c. £10/tonne CO₂; equivalent to £22/tonne coal
- Current HMT estimate of 2015/16 rate is c. £12/tonne CO₂ – will be fixed in Budget 2013
### Appendix 9: UK Generation Capacity

#### Summary of LCPD Elections

<table>
<thead>
<tr>
<th>Installation</th>
<th>Operator</th>
<th>Fuel</th>
<th>Installed Capacity (MWe)</th>
<th>Capacity Opted In (MW)</th>
<th>Capacity Opted In NERP (MW)</th>
<th>Capacity Opted In ELV (MW)</th>
<th>Capacity Opted Out (MW)</th>
<th>Opted Out Hours Remaining (Elexon – June 2012)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drax</td>
<td>Drax Power</td>
<td>Coal</td>
<td>3870</td>
<td>3870</td>
<td>3870</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Eggborough</td>
<td>EPL</td>
<td>Coal</td>
<td>1960</td>
<td>1960</td>
<td>1960</td>
<td>0</td>
<td>0</td>
<td></td>
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<tr>
<td>Cottam</td>
<td>EDF Energy</td>
<td>Coal</td>
<td>2008</td>
<td>2008</td>
<td>0</td>
<td>2008</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>West Burton</td>
<td>EDF Energy</td>
<td>Coal</td>
<td>1972</td>
<td>1972</td>
<td>0</td>
<td>1972</td>
<td>0</td>
<td></td>
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<tr>
<td>Kingsnorth</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>1940</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1940</td>
<td>12%</td>
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<tr>
<td>Ratcliffe</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>2000</td>
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<td>0</td>
<td>2000</td>
<td>0</td>
<td></td>
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<tr>
<td>Ironbridge</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>970</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>970</td>
<td>55%</td>
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<tr>
<td>Rugeley</td>
<td>International Power</td>
<td>Coal</td>
<td>996</td>
<td>996</td>
<td>0</td>
<td>996</td>
<td>0</td>
<td></td>
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<tr>
<td>Ferrybridge</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>1960</td>
<td>980</td>
<td>0</td>
<td>980</td>
<td>980</td>
<td>U1&amp;2 30%</td>
</tr>
<tr>
<td>Fiddlers Ferry</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>1961</td>
<td>1961</td>
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<td>1961</td>
<td>0</td>
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<td>Longannet</td>
<td>Scottish Power</td>
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<td>2304</td>
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<td>Cockenzie</td>
<td>Scottish Power</td>
<td>Coal</td>
<td>1152</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1152</td>
<td>U1&amp;2 1% U3&amp;4 10%</td>
</tr>
<tr>
<td>Uskmouth</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>393</td>
<td>393</td>
<td>0</td>
<td>393</td>
<td>0</td>
<td></td>
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<tr>
<td>Didcot A</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1940</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1940</td>
<td>25%</td>
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<tr>
<td>Tilbury*</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1020</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>1020</td>
<td>BOIL 7&amp;8 34% BOIL 9&amp;10 32%</td>
</tr>
<tr>
<td>Aberthaw</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1455</td>
<td>1455</td>
<td>0</td>
<td>1455</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Grain</td>
<td>E.ON UK</td>
<td>Oil</td>
<td>c.1300</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>c.1300</td>
<td>87%</td>
</tr>
<tr>
<td>Littlebrook</td>
<td>RWE npower</td>
<td>Oil</td>
<td>c.1100</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>c.1100</td>
<td>87%</td>
</tr>
<tr>
<td>Fawley</td>
<td>RWE npower</td>
<td>Oil</td>
<td>c.1000</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>c.1000</td>
<td>90%</td>
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<tr>
<td><strong>Total</strong></td>
<td></td>
<td></td>
<td><strong>31301</strong></td>
<td><strong>19899</strong></td>
<td><strong>8134</strong></td>
<td><strong>11765</strong></td>
<td><strong>11402</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: Elexon, Oxera, Drax data as at June 2012  
* RWE has announced conversion of Tilbury to 100% biomass
Appendix 10: Biomass Fuels

Forestry Residuals
- Forestry thinnings
- Harvesting residues
- Chips/Sawdust
- Bark
- Wood pellets
- Waste wood

Agricultural By-products
- Wheat/Oat straw
- Sunflower husks
- Sugarcane bagasse
- Rice straw
- Olive pulp
- Nut shell

Energy Crops & Organic Waste
- Miscanthus & switchgrass
- Bamboo
- Jatropha
- Short Rotation Coppice (e.g. Willow)
- Short Rotation Forestry (e.g. Eucalyptus)
- Mixed waste paper & other organic materials
## Appendix 11: ROC Banding Review Decisions

<table>
<thead>
<tr>
<th>Technologies</th>
<th>Level of ROCs / MWh</th>
<th>Current Support</th>
<th>DECC Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore wind</td>
<td>2.0</td>
<td>2.0 – 1.8</td>
<td></td>
</tr>
<tr>
<td>Onshore wind</td>
<td>1.0</td>
<td>0.9</td>
<td></td>
</tr>
<tr>
<td>Standard co-firing (&lt; 50%)</td>
<td>0.5</td>
<td>0.3 – 0.5</td>
<td></td>
</tr>
<tr>
<td>Enhanced co-firing (51% - 84%)</td>
<td>0.5</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Enhanced co-firing (85% - 99%)</td>
<td>0.5</td>
<td>0.7 (2013 – 2015)</td>
<td>0.9 (2015+)</td>
</tr>
<tr>
<td>Conversion</td>
<td>0.5</td>
<td>1.0</td>
<td></td>
</tr>
<tr>
<td>Dedicated biomass</td>
<td>1.5</td>
<td>1.4 (2016+)</td>
<td></td>
</tr>
</tbody>
</table>

(1) Excluding allowance of up to 10% additives

(2) Subject to consultation
Appendix 12: ROC Mechanics

Mechanism

Renewables Obligation (RO) – suppliers must source increasing volume of renewable power

Obligation can be met in two ways;
- Surrender ROCs or pay a buy-out

All buy-out funds recycled to suppliers that surrender ROCs
- Buy-out is mandated price with RPI indexation; currently c. £40/MWh

Mechanism in place to ensure:
- Obligation increases annually; and
- Obligation > expected ROC production

Cash flows
- Obligation is annual (April – March)
- ROCs surrendered or buy-out paid by 1 September following March year end
- Recycled funds paid out in October

Source: Renewables and CHP Registry, Ofgem Renewables Obligation Annual Reports & Information Notes
Appendix 12: ROC Mechanics
Cash Flows and Accounting

ROC generation measured in annual compliance periods (April – March)

ROC cash flows typically 6 months after annual compliance period ends
- Impacts working capital

Drax historically recognised ROC benefit in P&L only at time of ROC sale
- Similar timing to cash flows

Drax accounting change in 2012 – P&L benefit in period of ROC generation
- Matches ROC support with biomass fuel costs
- ROC value estimated based on market price

No significant impact on earnings profile until ROC support increased (April 2013)

Exploring opportunities to accelerate ROC cash flows
- Better match with earnings

Source: e-ROC auction data, Ofgem Renewables Obligation Annual Reports & Information Notes
Appendix 13: CCS Update

Carbon capture and storage (“CCS”)

Drax, Alstom, BOC and National Grid

- Demonstration project – new 426MW oxy-fired CCS plant at Drax site
- 2011 – application submitted for EU funding (NER-300)

2012 – application submitted for funding under UK DECC CCS Commercialisation Programme

Dependent on successful funding and EMR incentive mechanism for low carbon technologies
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Half Year Results

Six Months Ended 30 June 2012

31 July 2012