Half Year Results

Six Months Ended 30 June 2012

31 July 2012

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

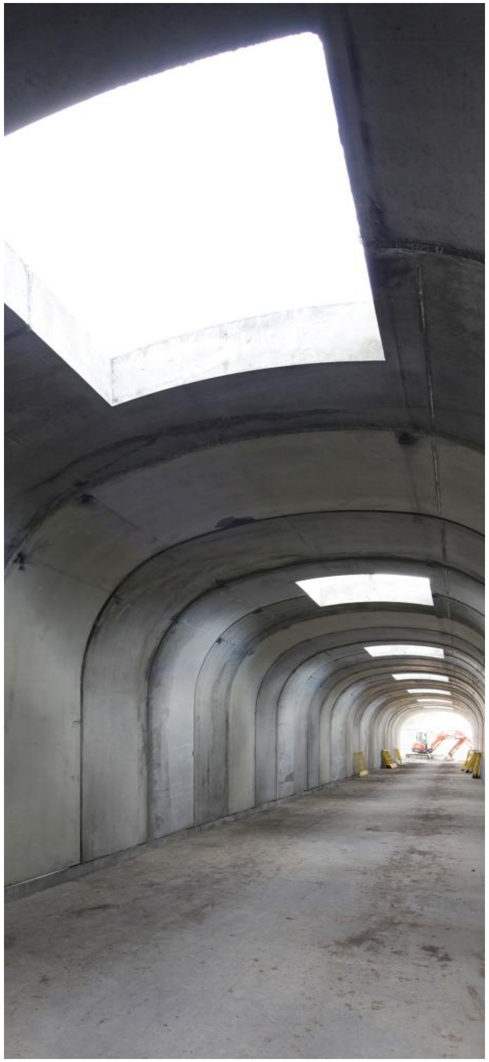
Other Consultation points

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:

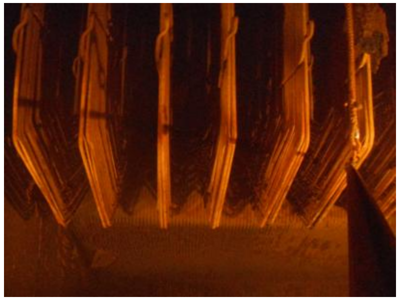
- Enable high availability
- Contribute to efficiency and output performance

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

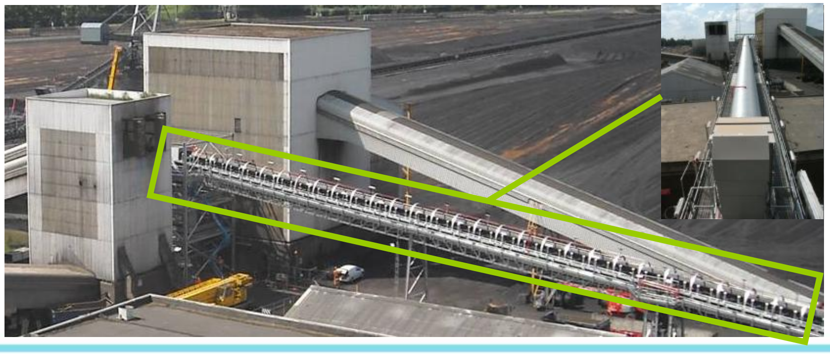
Boiler Tubes – Front End of Unit



Superheater – Back End of Unit

Modified Existing Direct Injection Systems for Unit Trials

New Conveyor for Unit Trials



Biomass Sourcing
Supply Chain Update








Fibre	Harvesting	Pellet plant	Overseas rail	Overseas port	Shipping	UK port	UK rail

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%)

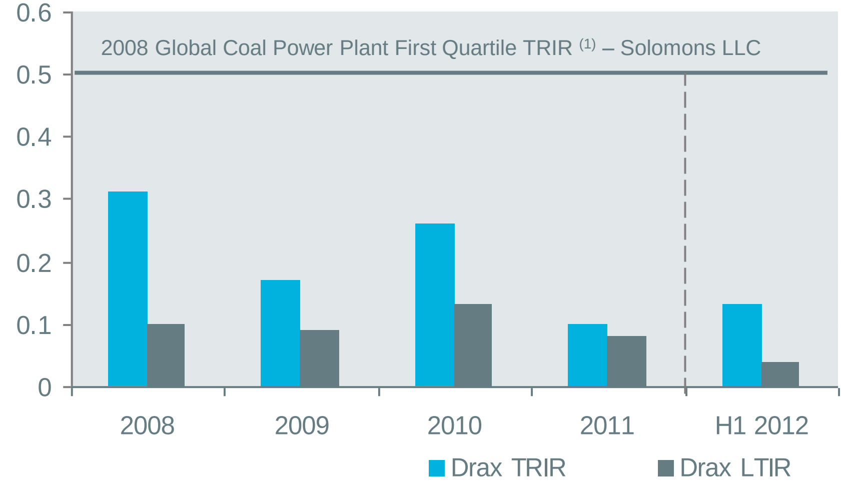
4.4% Forced Outage Rate (H1 2011: 4.2%)

- 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%

Safety Performance



Estimated UK Plant Load Factors

Plant	Average H1 2012 Load Factor (2)
Drax	82%
Large nuclear	74%
Coal (excl. Drax)	55%
Gas	28%

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

	H1 2012		H1 2011		12m 2011
	Tonnes	Mix%	Tonnes	Mix%	Mix%
Coal	4.6Mt	87%	4.6Mt	88%	87%
Pond Fines	0.4Mt	4%	0.3Mt	3%	3%
Petcoke	0.1Mt	2%	0.0Mt	1%	1%
Biomass	0.1Mt	2%	0.6Mt	8%	5%
Biomass R&D	0.4Mt	5%	-	-	4%

(1) TRIR = Total Recordable Injury Rate, LTIR = Lost Time Injury Rate
TRIR first quartile benchmark worsened to 1.2 in 2009 Solomon study
(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

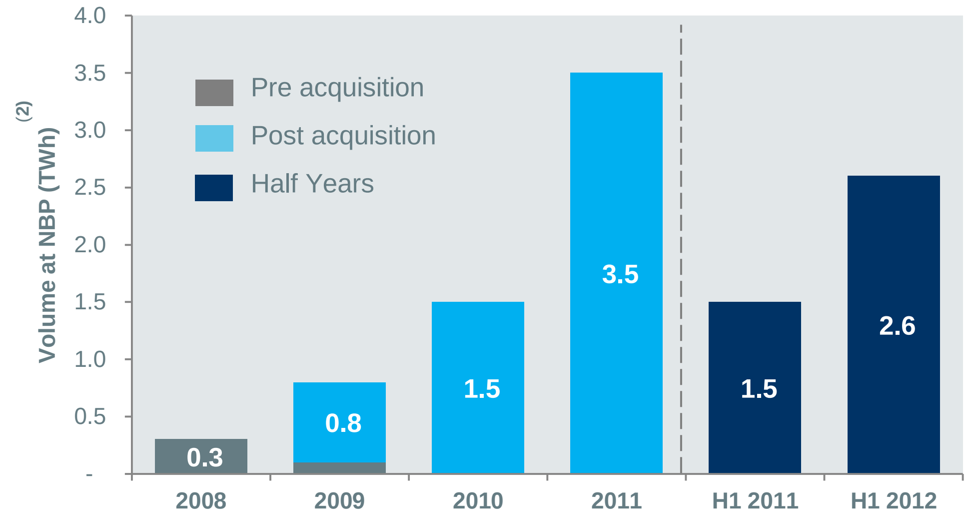
Substantial growth delivered

- 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

Haven Power Sales (TWh) (1)



(1) Haven acquisition date: March 2009

(2) NBP = Notional Balancing Point

H1 2012 Business Review

Trading

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

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

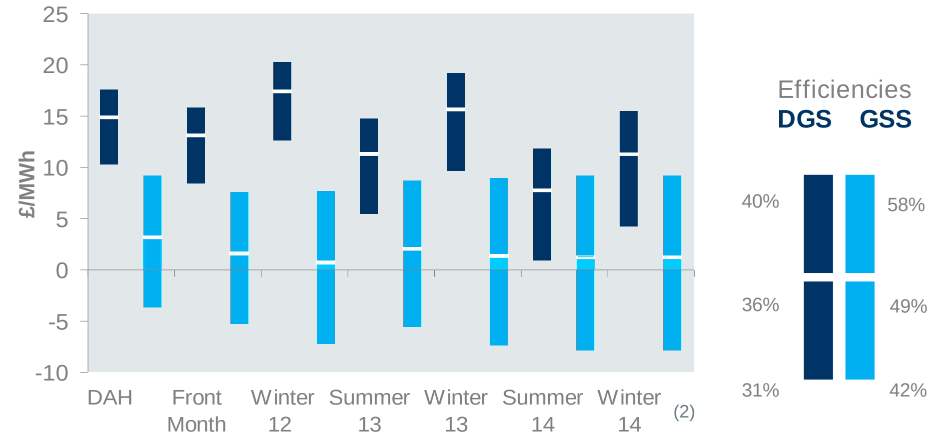
- Plant efficiencies significant factor in load profiles
  - Different load factors for same fuel plant
  - Low GSS resulted in gas plant capacity withdrawn / considered for closure
  - Closure date announced for several opted-out coal plants

System balancing support

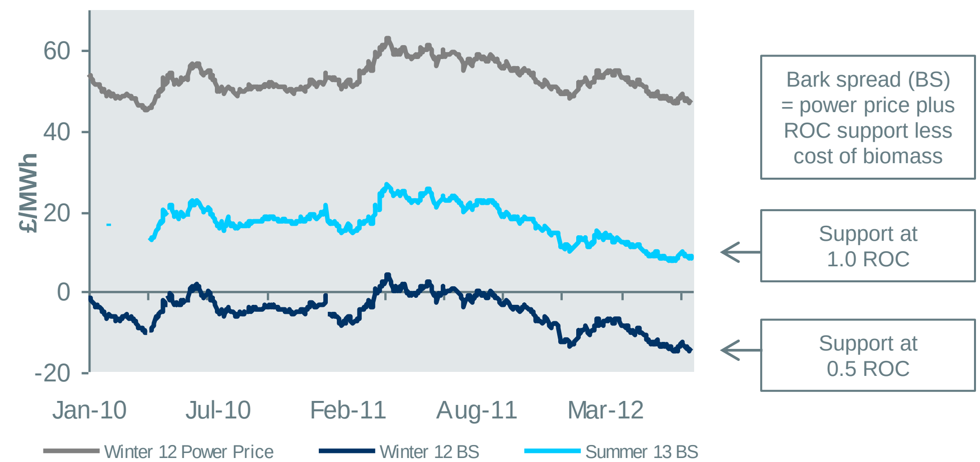
- Drax will continue to play a significant role
- Wind output now ranges from nil – 6GW
  - Summer / Winter low demand is c. 20GW / 32GW

Bark spread weakened on lower power price

Range of Market DGS and GSS (1) by Efficiency (Baseload)



Power Price and Indicative Market Bark Spread (Baseload)



(1) DGS = dark green spread, GSS = green spark spread
(2) DGS / GSS includes carbon price support for Summer and Winter 2013 and 2014

Sources: Brokered Data, Drax assumptions, and based on market prices on 20 July 2012
Biomass costs based on UK and Global Bioenergy Resource – Final Report, AEA, March 2011

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

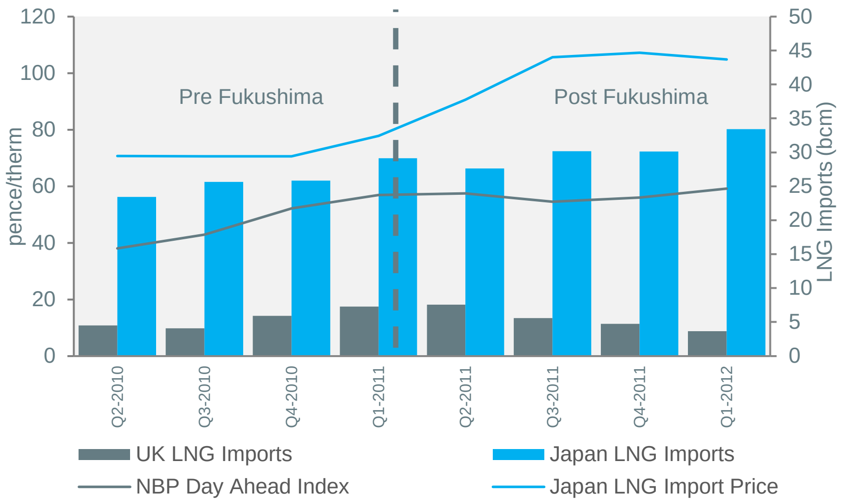
UK spot gas prices remain strong

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

Increased UK import dependency

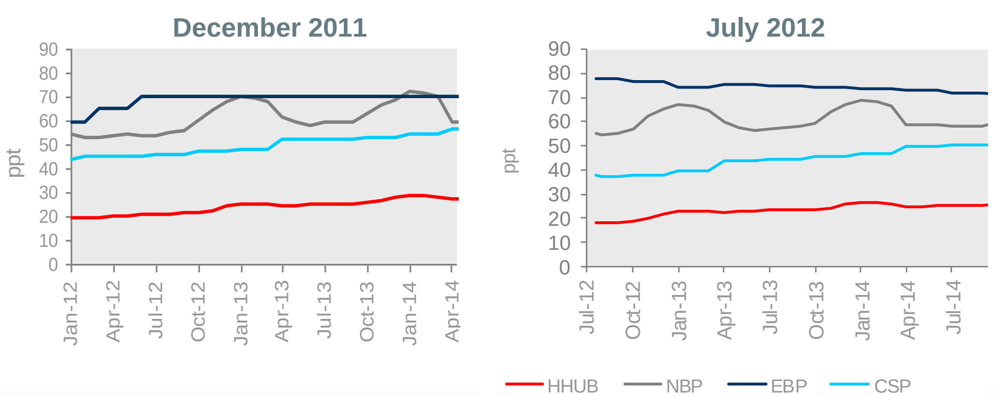
- Continued decline of UKCS

Fukushima Impact on LNG



Source: Bloomberg, DECC, Brokered Trades

NBP, Henry Hub and EBP™ Index Forward Curves



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

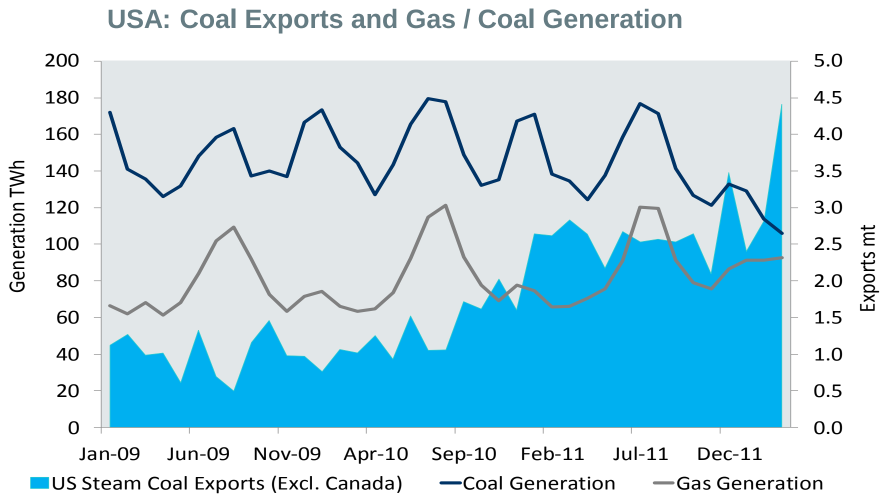
Chinese imports remain strong but not enough to absorb over supply

- Lower than expected demand – record high stocks in China

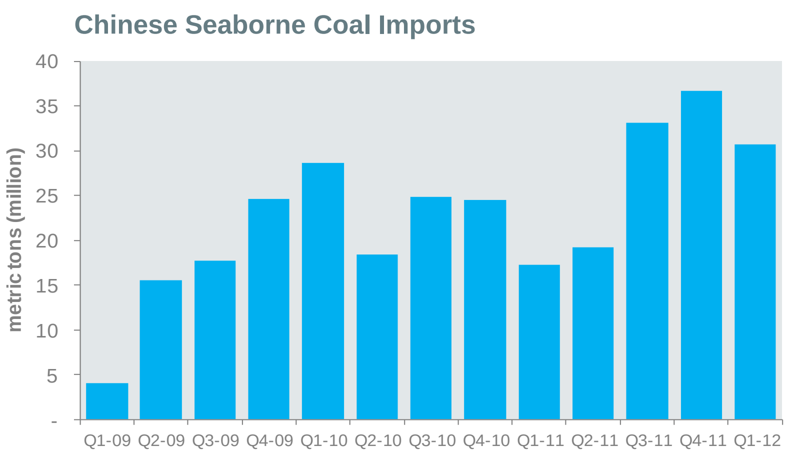
API2 prompt prices down 20% in 2012

- Low international prices
- High stocks in Europe
- US and Colombian cargos now targeting Pacific market

UK domestic coal producers under pressure



Source:EIA and IHS CERA's Global Steam Coal Advisory Service



Source: IHS CERA's Global Steam Coal Advisory Service

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

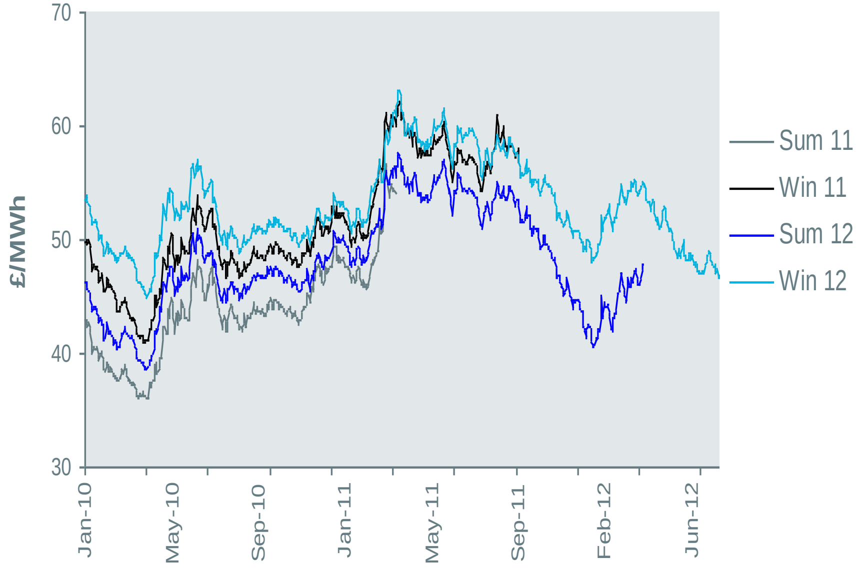
H1 2012 Financial Review
Income Statement - Summary

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

H1 2012 Financial Review
Income Statement – Revenue

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

Power Prices

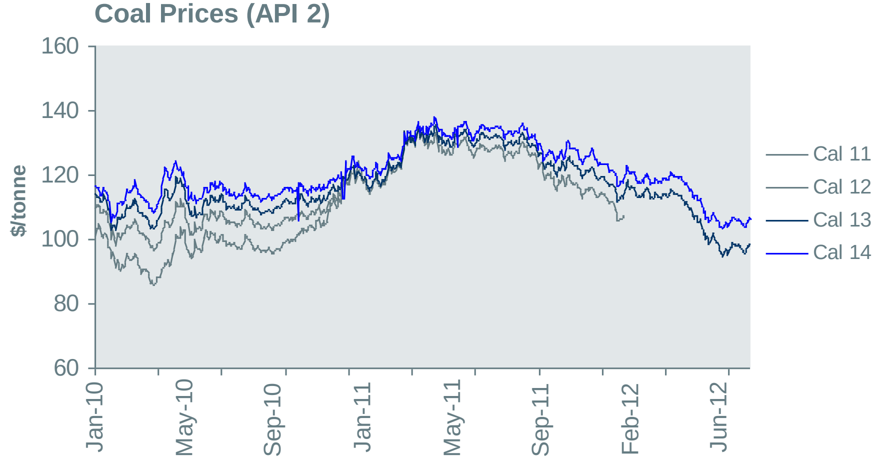


Sources: Brokered Trades, Spectron

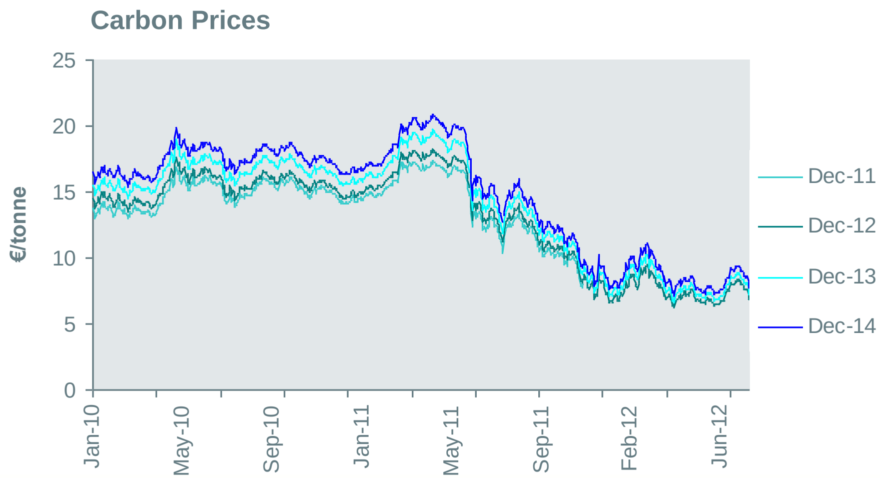
H1 2012 Financial Review
Income Statement – Cost of Sales

	H1 2012	H1 2011
Total Cost of Sales	**£613m**	**£585m**
Fuel and Carbon Costs (1)	£455m	£445m
Cost of Power Purchases	£58m	£78m
Grid Charges and Other Retail Cost of Sales	£100m	£62m
Average Fuel Cost (excl. CO_2 costs)	**£30.7/MWh**	**£29.8/MWh**
Average Fuel Cost (incl. CO_2 costs)	**£33.5/MWh**	**£34.1/MWh**
Average Cost of Purchased CO_2 Allowances	**£5.9/tonne**	**£13.0/tonne**

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



Source: McCloskeys, Brokered Trades



Source: ICE ECX

H1 2012 Financial Review
Income Statement – Operating Costs

Operating Costs – £101m in H1 2012

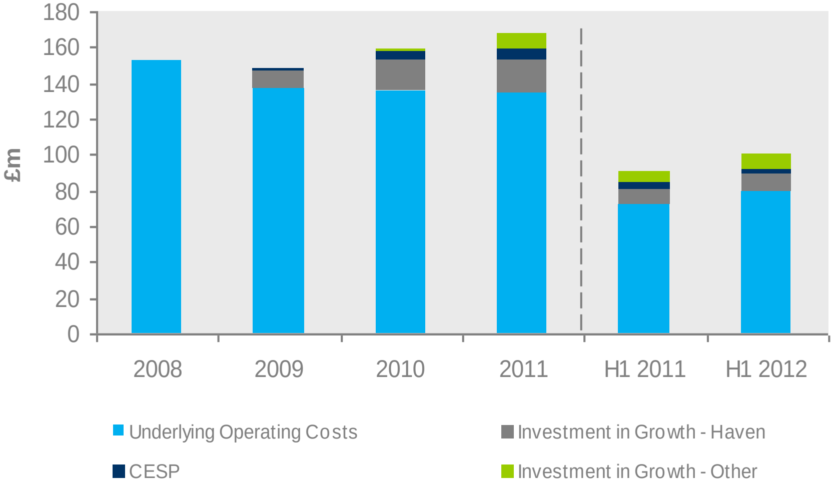
H1 2012 total operating cost increase £10m

- Underlying costs + £7m
- Investment in growth +£3m
  Haven, biomass R&D

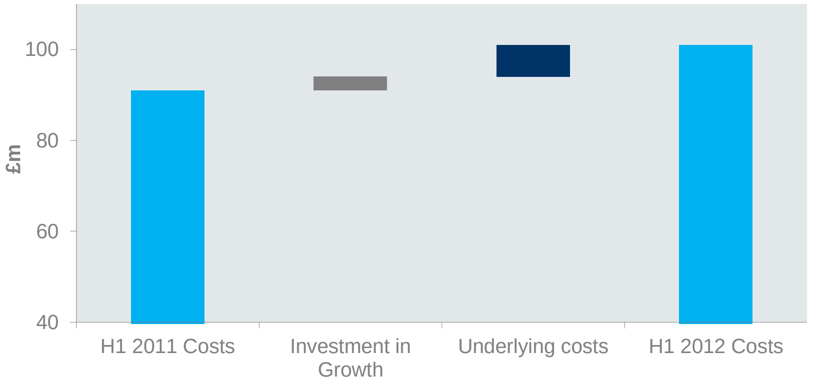
Full year 2012 operating cost guidance unchanged at £205m

- Double outage and business rates +£20m (12%)
- Underlying cost inflation: +£8m (5%)
- Investment in growth: +£10m (6%)

Operating Cost History (normalised for outages)



H1 2012 Operating Cost Bridge



H1 2012 Financial Review
Capital Investment

Capital Investment – £90m in H1 2012

- Includes £70m for biomass project

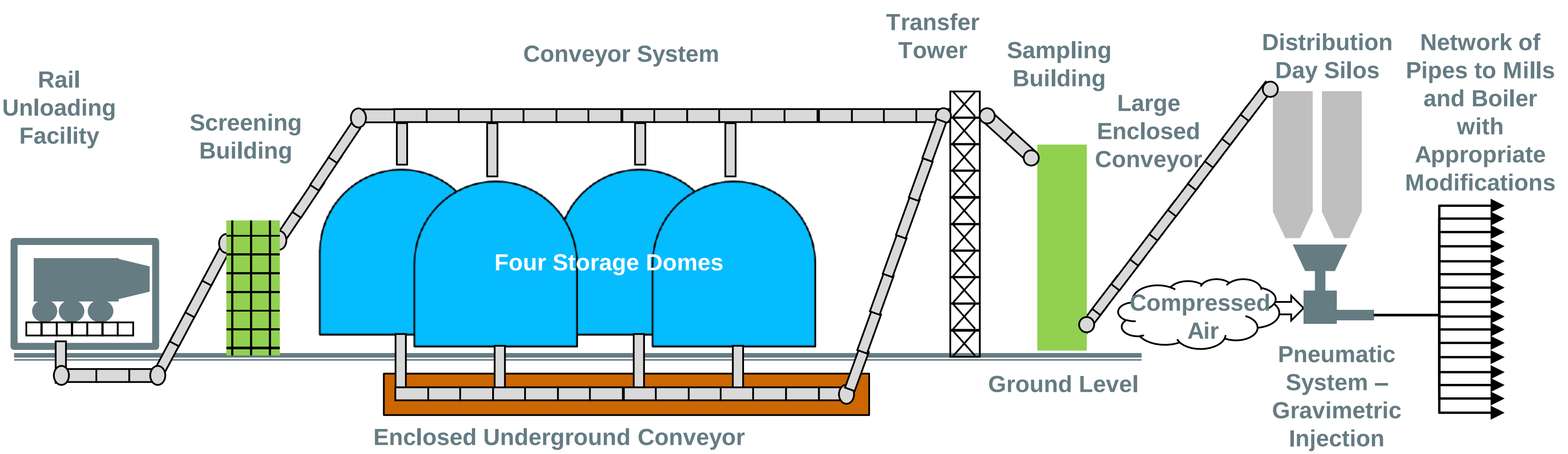
Capex guidance for 2012: £200m

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

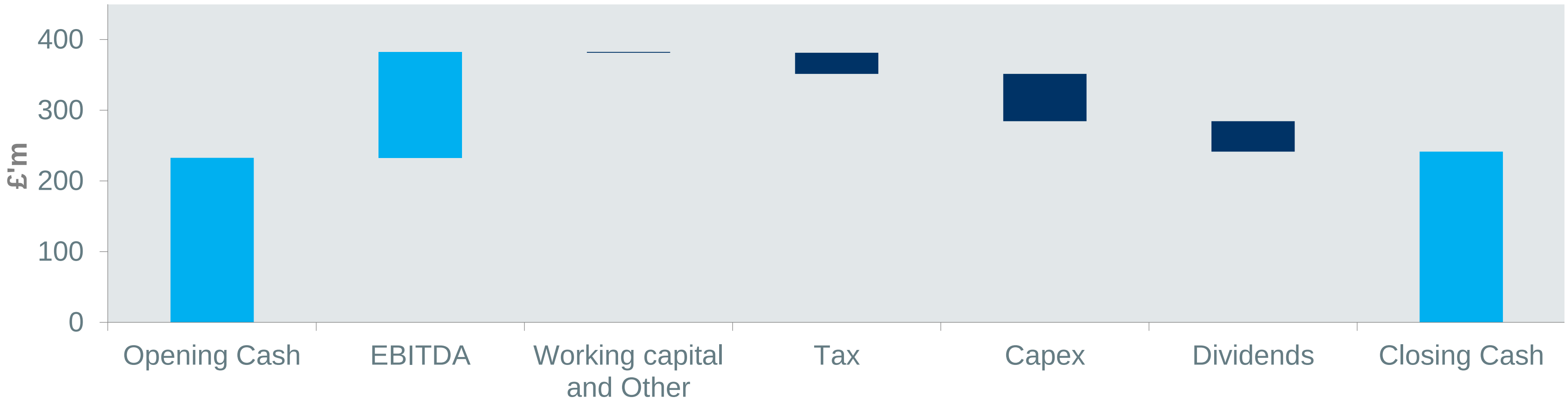
Refining details of previously announced £650m – £700m capital investment plan

- Remain confident of the overall scale

New Biomass Delivery and Storage Systems



H1 2012 Financial Review
Cash Flow



Working Capital and Other	Tax	Capex	Dividends	Closing Cash
£4m	(£30m)	(£77m)	(£43m)	£241m
Coal stocks (£22m) 0.6Mt increase to 2.0Mt Other net inflow (+£26m)	Settlement of 2011 liability	Includes payments for biomass project £55m	Final 2011 dividend of 11.8p/share	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

Appendix 1: Definitions

API2/4/6		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 ("FOB") to Richards Bay, South Africa. API6 is the reference price for steam coal to be delivered FOB to Newcastle, Australia.
	AVERAGE ACHIEVED PRICE	Power revenues divided by volume of net sales (includes imbalance charges).
BM	**BALANCING MECHANISM**	The mechanism through which the System Operator can call upon additional generation/consumption or reduce generation/consumption, through market participants' bids and offers, in order to balance the system minute by minute.
CESP	**COMMUNITY ENERGY SAVING PROGRAMME**	CESP has been created as part of the Government's Home Energy Saving Programme. It requires gas and electricity suppliers and electricity generators to deliver energy saving measures to domestic consumers in specific low income areas of Great Britain. CESP came into force on 1 September 2009. The CESP obligation period will run from 1 October 2009 to 31 December 2012.
DECC	**DEPARTMENT FOR ENERGY AND CLIMATE CHANGE**	
	DIRECT INJECTION	A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.
EBITDA		Profit before interest, tax, depreciation, amortisation, gain/(loss) on disposal of fixed assets and unrealised gains/(losses) on derivative contracts.
ELV	**EMISSION LIMIT VALUES**	One of the mechanisms available to implement the LCPD. This sets annual limits on the emissions of NO_X, SO_2 and particulate which will be incorporated into the forthcoming PPC permit.
EUA	**EU ALLOWANCE**	European Union Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO_2.
EU ETS	**EU EMISSIONS TRADING SCHEME**	Trading Scheme within the European Union. The first compliance phase is from 2005-07, the second compliance phase continues from 2008-12 and the third phase is proposed to run from 2013-2020.
IUK	**INTERCONNECTOR UK**	Sub sea gas pipeline and terminal facilities providing a bi-directional link between the UK and continental European energy markets.
LCPD	**LARGE COMBUSTION PLANT DIRECTIVE**	European Union Large Combustion Plant Directive sets emission standards for NO_X, SO_2 and particulate from all Large Combustion Plant (>50MW).
LEC	**LEVY EXEMPTION CERTIFICATE**	Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Appendix 1: Definitions

LNG	LIQUIFIED NATURAL GAS	
LTIR	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.
NERP	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.
NOx		Nitrogen oxides, emissions of which are regulated under the LCPD.
OFGEM	OFFICE FOR GAS AND ELECTRICITY MARKETS	
	OPTED-IN / OPTED-OUT	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.
	POND FINES	Coal dust and waste coal from the cleaning and screening process which can be used for coal-fired power generation.
RO	RENEWABLES OBLIGATION	The obligation placed on licensed electricity suppliers to deliver a specified amount of their electricity from eligible renewable sources.
ROC	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.
ROSPA	ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS	
SCR	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.
SO_2		Sulphur dioxide, emissions of which are regulated under the LCPD.
TRIR	TOTAL RECORDABLE INJURY RATE	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries)/ hours worked * 100,000.
UKCS	UK CONTINTENTAL SHELF	Gas reserves found off shore in UK waters.
UK NAP	UK NATIONAL ALLOCATION PLAN	Allocation of UK emissions allowances at the national level to individual sites under EU ETS.

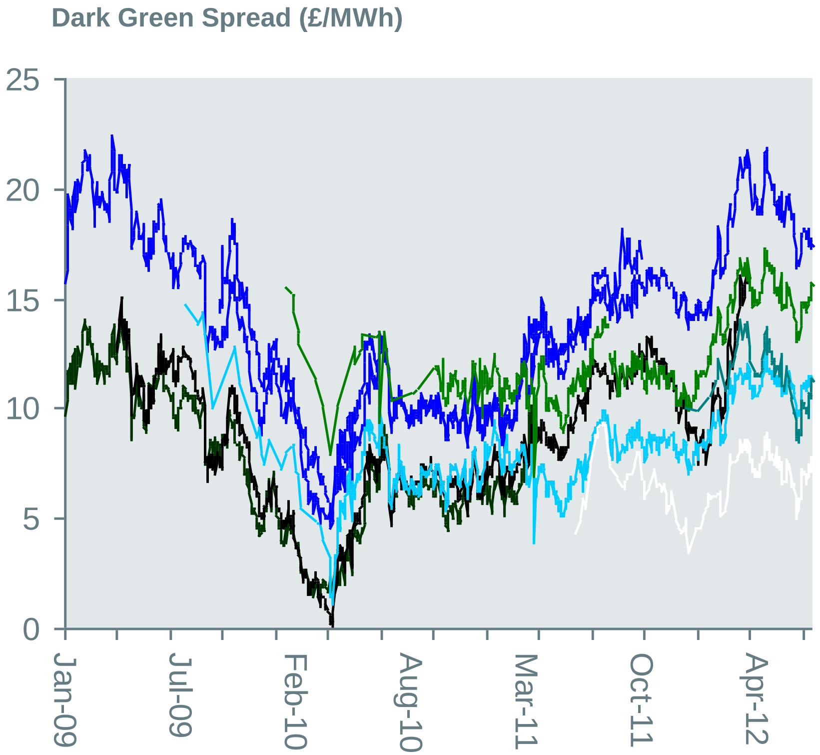
Appendix 2: Financial Calendar

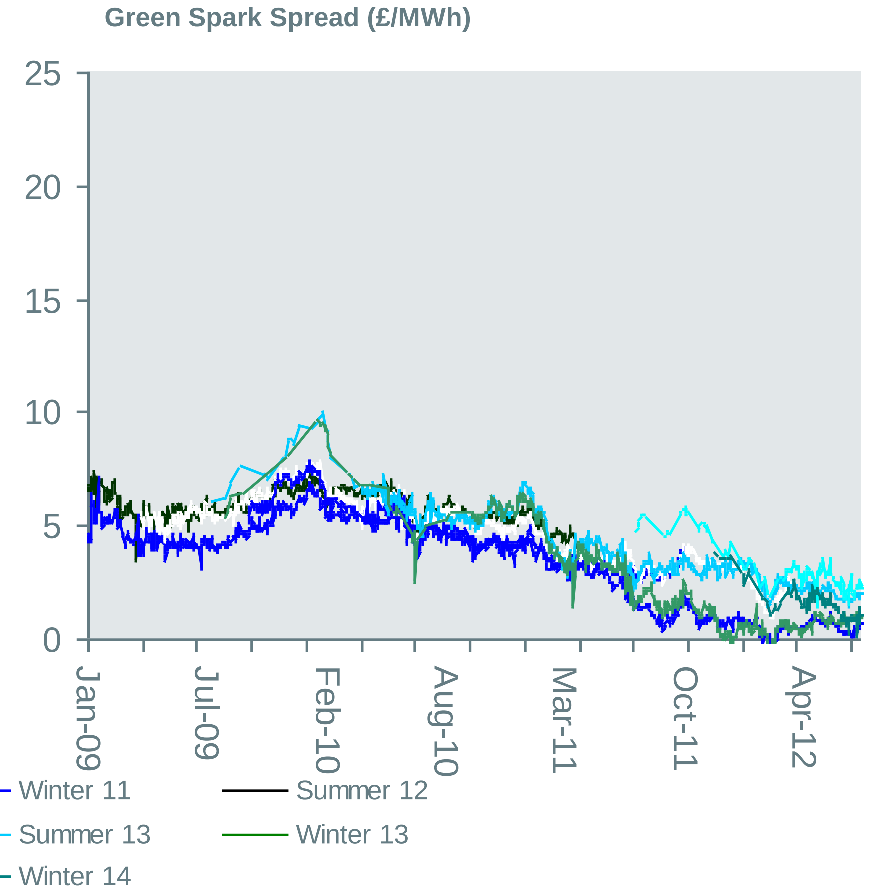
Event	2012
Ordinary shares marked ex-interim dividend	26 September
Record date for interim dividend	28 September
Payment date for interim dividend	12 October 2012
Interim Management Statement	13 November
Financial year end	31 December

Appendix 3: IAS39 Treatment

Financial Instrument	Location of gains and losses in the 2012 Half Year Report
Power	Hedge Reserve
International Coal	Hedge Reserve and Income Statement
Financial Coal	Largely Income Statement
Foreign Exchange	Hedge Reserve and Income Statement
Interest Rate Swaps	Largely Income Statement
Carbon	Hedge Reserve

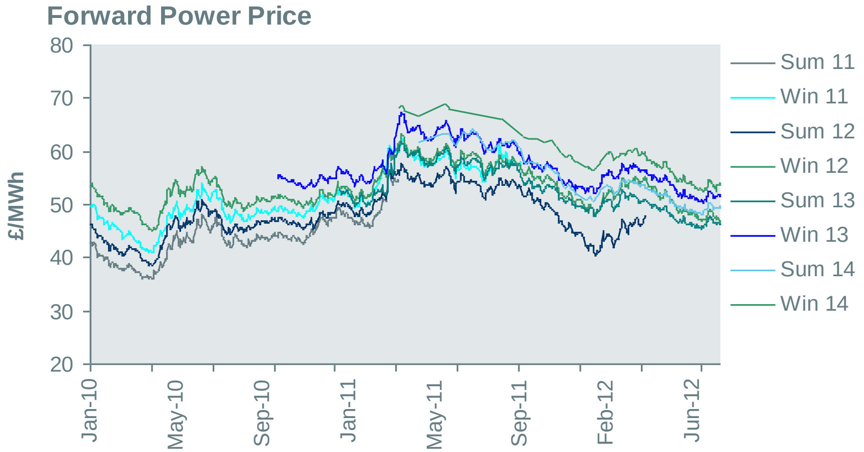
Appendix 4: Commodity Markets
UK Forward Spread Movements – to 20 July 2012



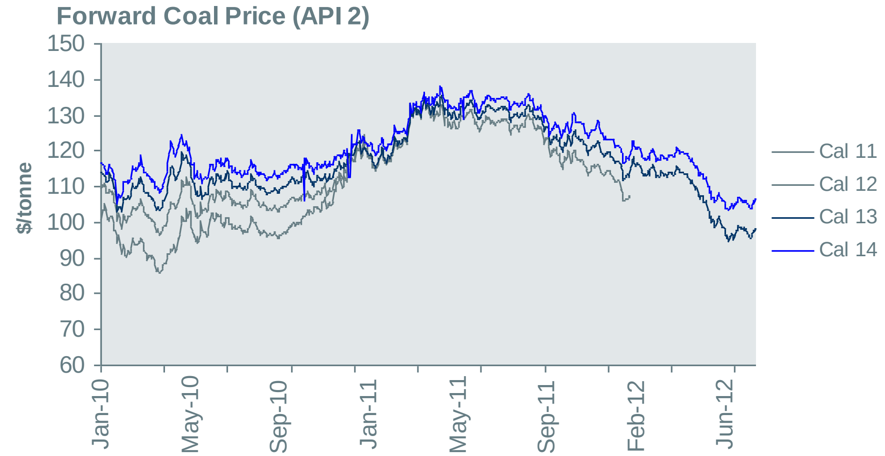


Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49%

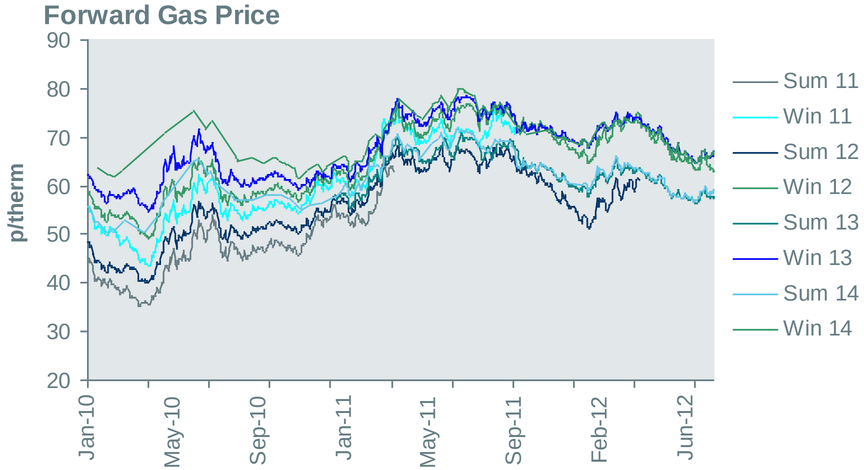
Appendix 4: Commodity Markets
Commodity Price Movements – to 20 July 2012



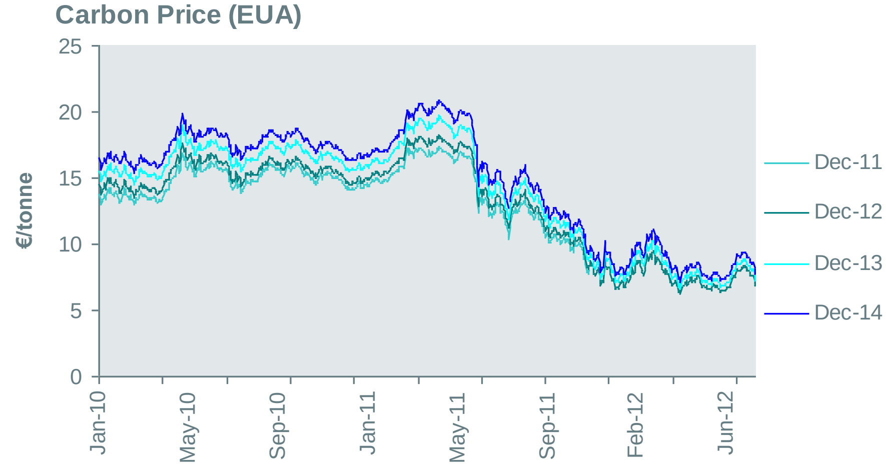
Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI



Source: Brokered Trades, McCloskey



Source: Brokered Trades, Spectron

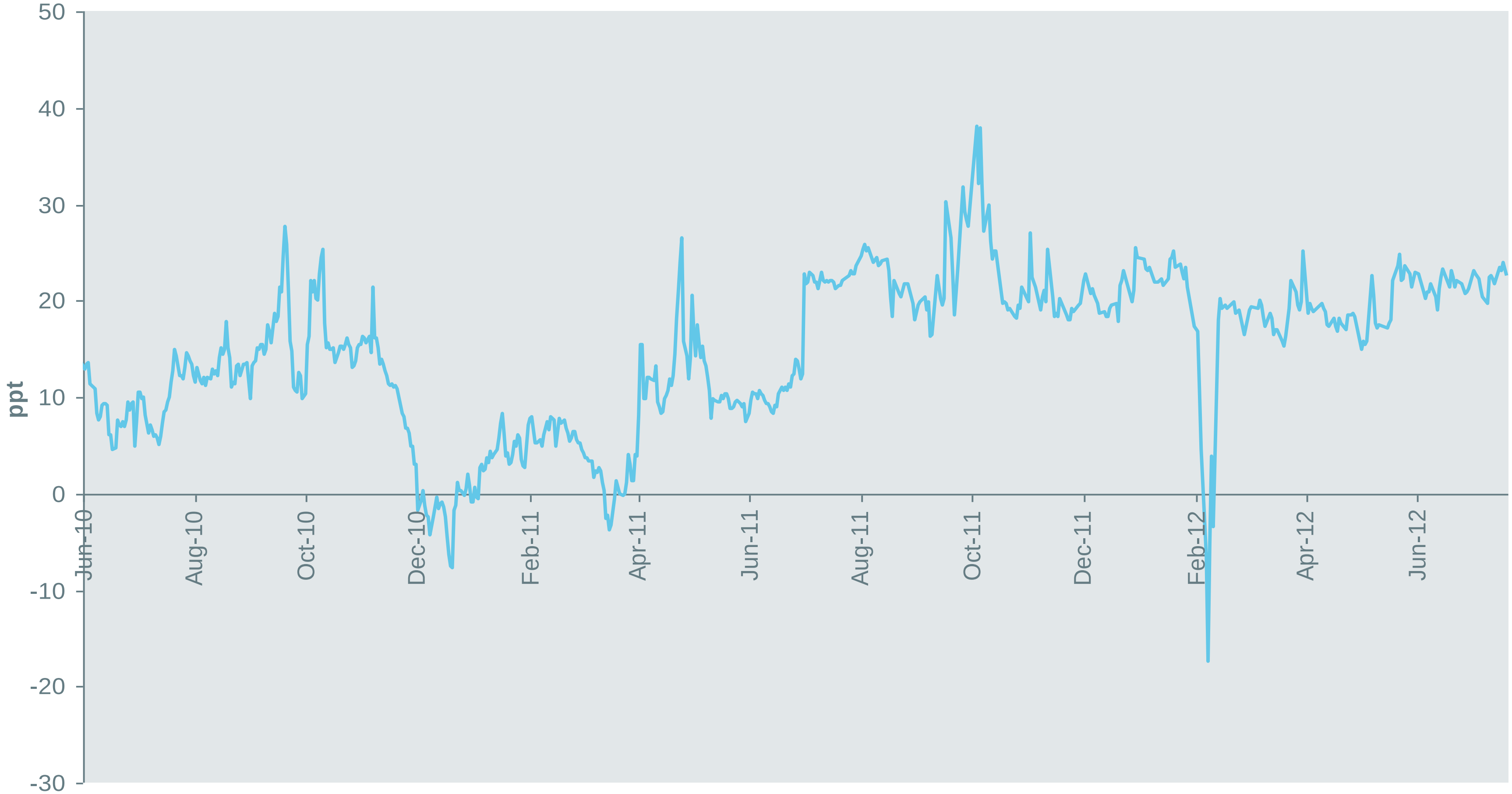


Source: ICE ECX

Appendix 5: Gas Market

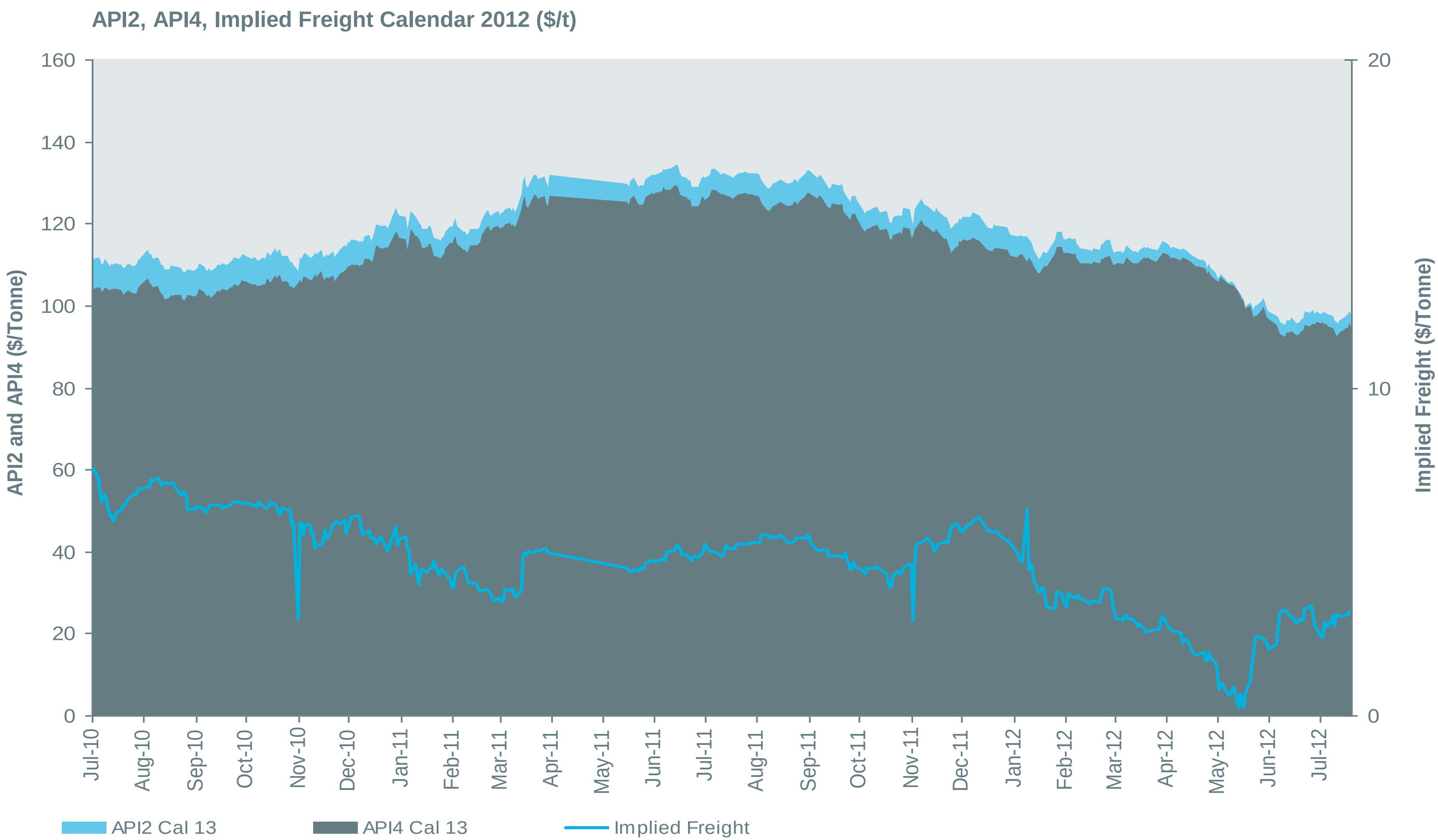
European to UK Gas Price Differentials

Spot EBP™ Index v. UK Spot Gas (NBP) Differential



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



Source: Brokered Trades & McCloskey

Appendix 7: Carbon Market

Lowest EUA price for over 2 years

Driven by expected Phase II over supply

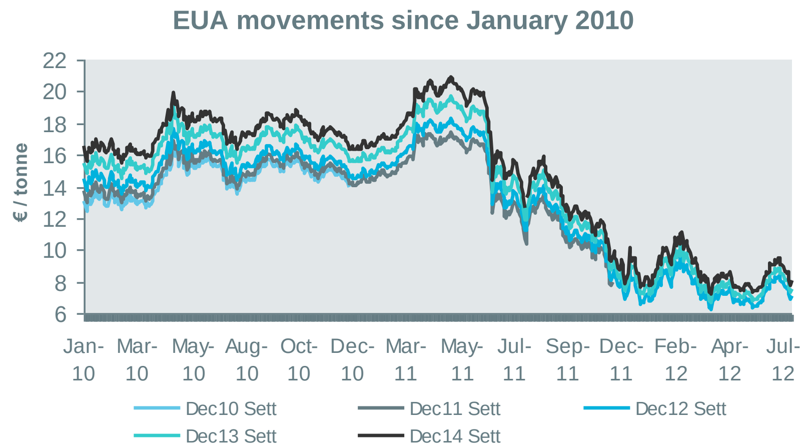
- Fear over European economies
- New Entrant Reserve (300Mt) now coming to market
- Continued high CER issuance
- Forecast growth in Emission Reduction Units (ERU) issuance

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

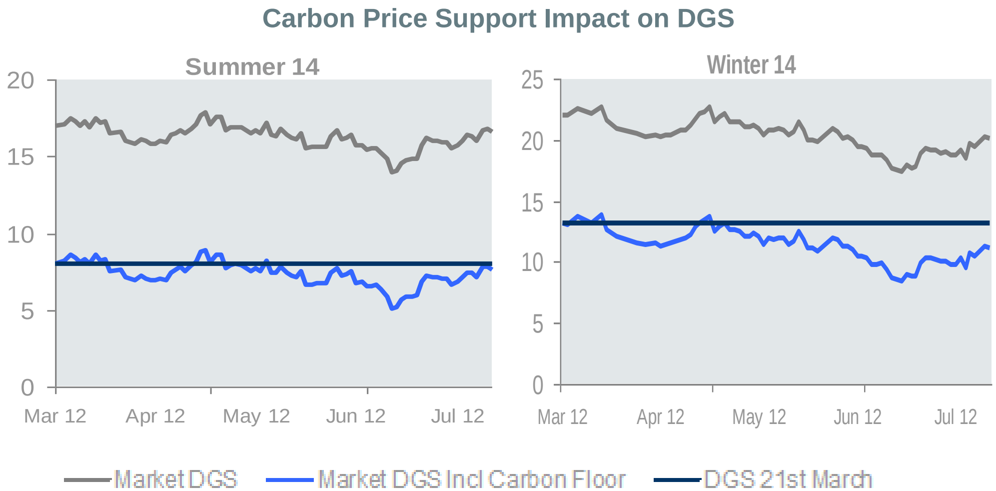
Considerable opposition across Europe to attempt to increase Phase III ambition beyond 20%

Possible withdrawal of EUAs

Introduction of UK CO_2 price support



Source: ICE



Sources: Drax Assumptions, Brokered Trades

Appendix 8: Carbon Price Support

Introduced in Budget 2011
– effective April 2013

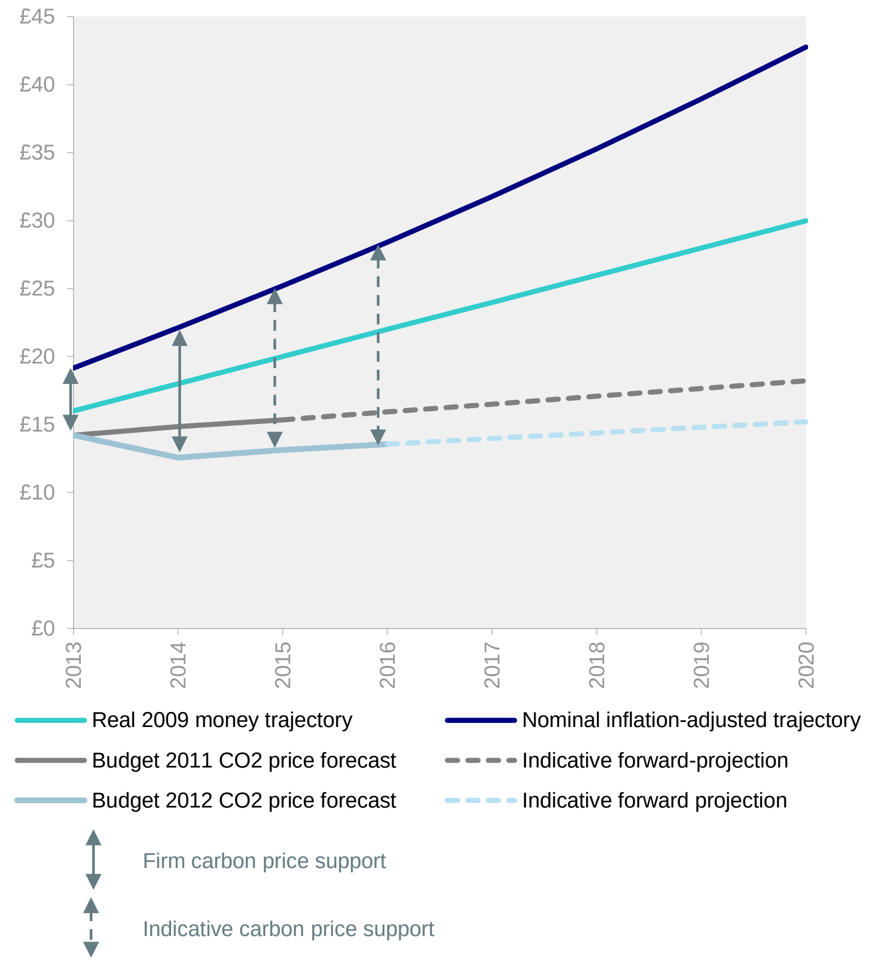
Climate Change Levy (CCL) amended to indirectly supplement EU ETS carbon price

- Based on fuel (coal) consumption

Tax per tonne CO_2 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 CO_2; equivalent to £12/tonne coal
- For 2014 this is c. £10/tonne CO_2; equivalent to £22/tonne coal
- Current HMT estimate of 2015/16 rate is c. £12/tonne CO_2 – will be fixed in Budget 2013

Projected Carbon Price Support to 2020



Appendix 9: UK Generation Capacity

Summary of LCPD Elections

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

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

Technologies	Level of ROCs / MWh	
	Current Support	DECC Decision
Offshore wind	2.0	2.0 – 1.8
Onshore wind	1.0	0.9
Standard co-firing (2) (< 50%)	0.5	0.3 – 0.5
Enhanced co-firing (51% - 84%) (1)	0.5	0.6
Enhanced co-firing (85% - 99%) (1)	0.5	0.7 (2013 – 2015) 0.9 (2015+)
Conversion (1)	0.5	1.0
Dedicated biomass	1.5	1.5 1.4 (2016+)

(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

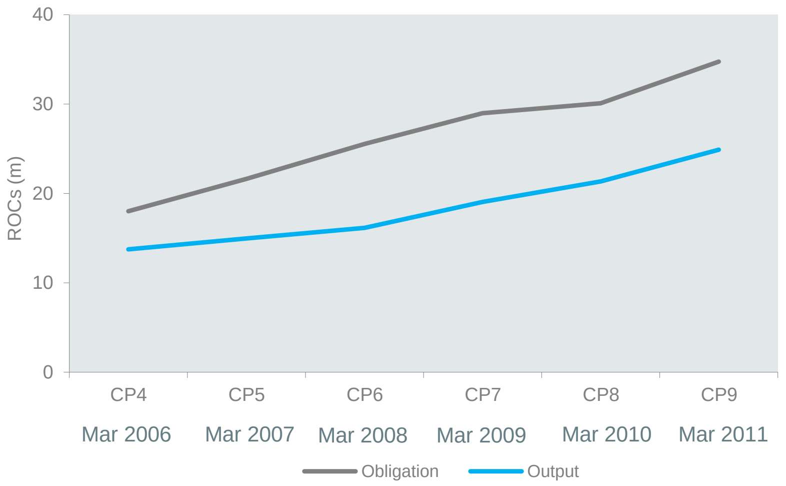
Mechanism in place to ensure:

- 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

Renewable Obligation and Output



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

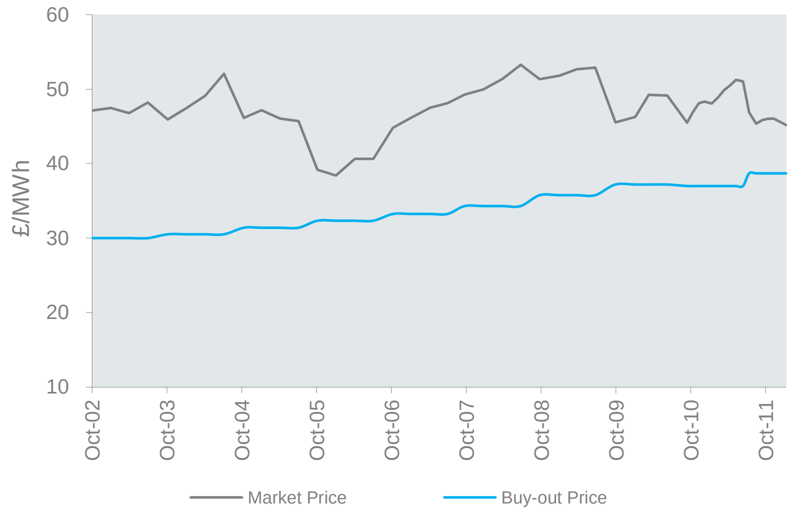
- Matches ROC support with biomass fuel costs
- ROC value estimated based on market price

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

Exploring opportunities to accelerate ROC cash flows

- Better match with earnings

ROC Buy-out Price and Market Price



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

Appendix 13: CCS Update

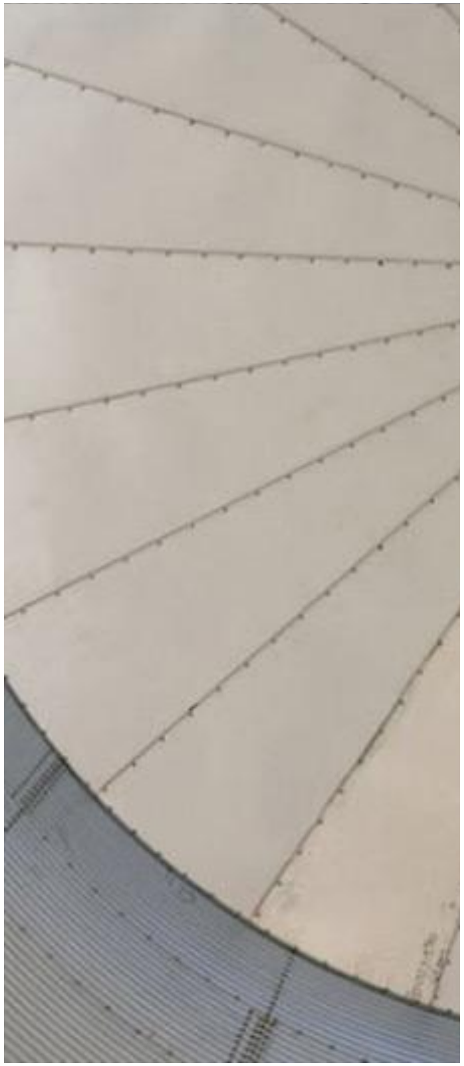
Carbon capture and storage ("CCS")

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