

Preliminary Results

Year Ended 31 December 2012

19 February 2013



Agenda

2012 Business Review

Dorothy Thompson

Chief Executive

2012 Financial Review

Tony Quinlan

Finance Director

Biomass Transformation

Dorothy Thompson



2012 Summary

Dorothy Thompson - Chief Executive

2012 profits in line with expectations

Continued strength in operations

Strong hedge for 2013

Offset by EU ETS Phase III

And 1st year of UK carbon tax

Biomass transformation

Mandate, means and expertise

EBITDA

£298m

Underlying Earnings Per Share

51.9p

Total Dividends

25.3p/share (£97m)

2012 Business Review

Operational Performance

Maintaining world class standards of safety

86% Availability (2011: 88%)

- 4.8% forced outage rate (2011: 5.8%)
- Long-term FOR target of 5%
- 9.6% planned outage rate (2011: 6.2%)

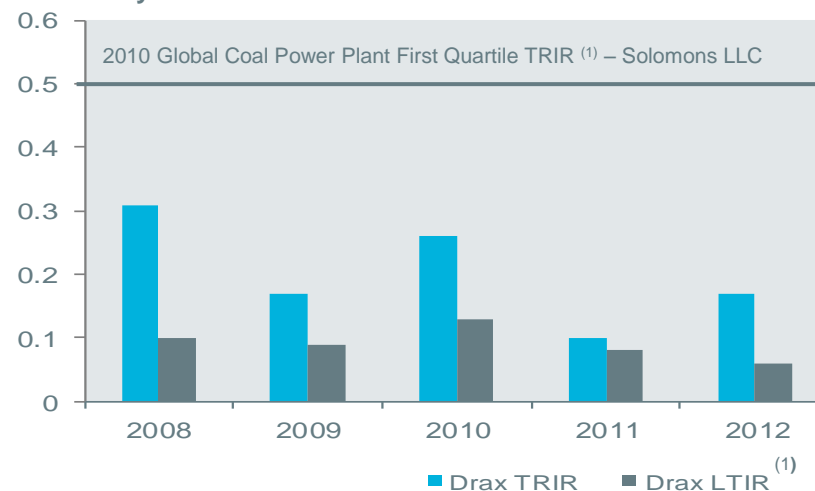
82% Load Factor (2011: 80%)

- Net generation 27.1TWh (2011: 26.4TWh)
- Record output

Turbine upgrades

- HP/LP completed – coal unit efficiency c. 40%
- IP upgrade for biomass units
 - £20m (2014 – 2015)
 - 0.2% gain in unit efficiency

Safety Performance



Drax Fuel Mix

	2012		2011	
	Tonnes	Mix% ⁽²⁾	Tonnes	Mix% ⁽²⁾
Coal	9.6Mt	91%	9.1Mt	87%
Pond Fines	0.6Mt	3%	0.6Mt	3%
Petcoke	0.1Mt	1%	0.1Mt	1%
Biomass – commercial	0.2Mt	2%	0.7Mt	5%
Biomass – R&D	0.5Mt	3%	0.6Mt	4%

(1) TRIR = Total Recordable Injury Rate, LTIR = Lost Time Injury Rate

(2) By heat

2012 Business Review

Haven Power Update

Credit-efficient route to market

Targeting 10 - 15TWh by 2015

- Sales growth remains business priority
 - I&C and SME markets ⁽¹⁾
- Continue to expect modest loss up to 2015 as sales growth delivered

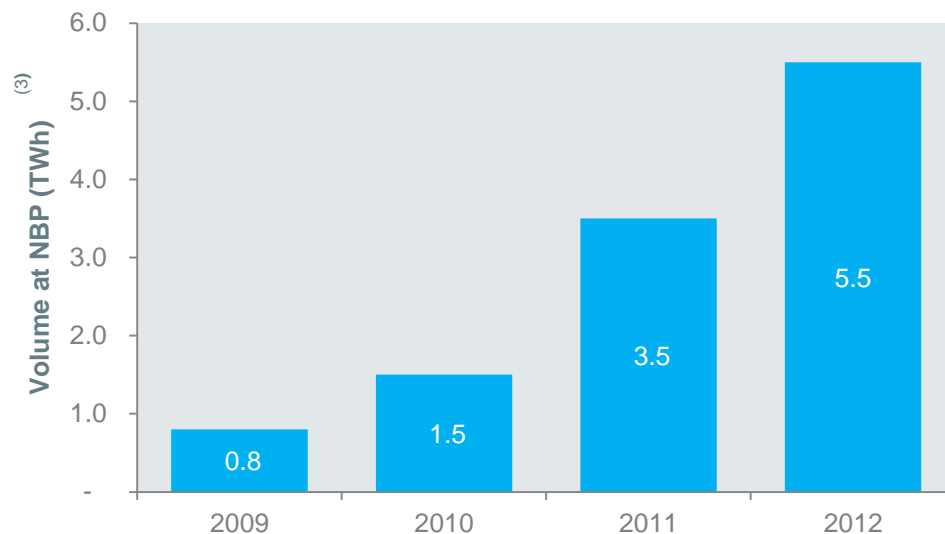
Substantial growth 2012

- Retail sales £451m (2011: £275m)
- 6.5TWh already contracted for 2013 (2011: 4.4TWh contracted for 2012)
- Bad debt experience remains low

Customer satisfaction

- Ranked No.1 for customer satisfaction in 2012 Datamonitor survey (SME)
- Developing good reputation in I&C

Haven Power Sales (TWh) ⁽²⁾



- 1) I&C = Industrial and Commercial, SME = Small and Medium Enterprises
- 2) Haven acquisition date: March 2009
- 3) NBP = Notional Balancing Point

2012 Business Review

Positions Under Contract

Positions Under Contract as at 11 February 2013	2013	2014	2015
Power Sales – TWh	22.1	11.2	2.9
Comprising:			
▪ Fixed price TWh at average achieved price £ per MWh	19.7 @ 51.9	8.6 @ 53.6	1.0 @ 56.5
▪ Fixed margin and structured contracts TWh	2.4	2.6	1.9
Carbon – TWh equivalent			
Emissions allowances hedged (including, market purchases, structured contracts and benefit of biomass)	20.9	10.5	2.7
Solid Fuel – TWh equivalent			
At fixed price / hedged (including structured contracts)	23.0	17.6	9.5

Framework for hedging has changed

- Two businesses: biomass and coal
- Sub-investment grade
 - Credit access and collateral exposure management
- Power market liquidity generally limited to 4 seasons forward
 - Exacerbated by carbon tax – set in March Budget for 2 years forward
 - Today carbon floor unknown for Summer 2015+

2012 Business Review

Hedging Strategy

Coal business – shorter term margin hedge

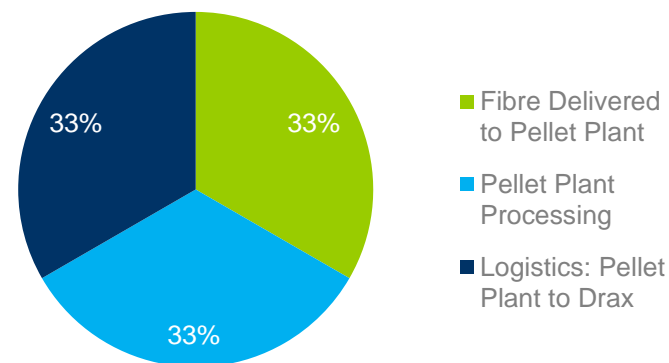
- **Hedge dark green spread**
 - Margin fixed by power sale matched with coal and carbon purchase
 - Exception: purchase limited medium term fixed price domestic coal without matching power sale
- **Timing of hedge**
 - Spread attractiveness, power market liquidity and credit efficiency

Biomass business – long term fuel hedge

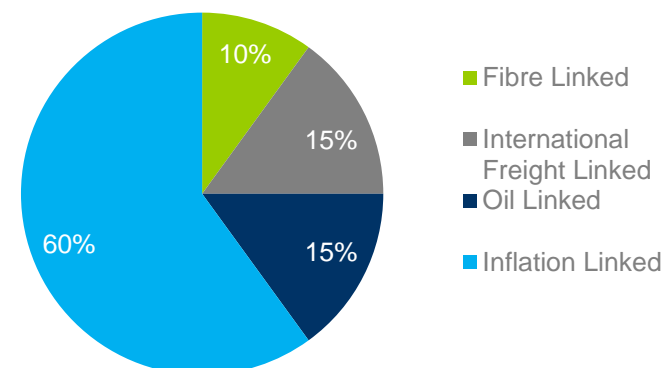
- **Fuel costs hedged by income streams**
 - Fuel contracts: US\$/Euro + inflation
 - ROC income: GBP + inflation
 - Power income from minimum expected price: GBP
- **Hedging to manage basis risk**
 - Currency, freight, oil
 - Fibre component fixed/capped in some contracts
- **Margin fully hedged only on power sale**
- **Timing of power sale**
 - Spread attractiveness, power market liquidity and credit efficiency

Wood Pellets – Components of Cost ⁽¹⁾

Typical Supply Chain Profile



Typical Indexation Components



2012 Financial Review - Highlights

Tony Quinlan - Finance Director

EBITDA

£298m

Final Dividend ⁽³⁾

10.9p/share (£44m)

Underlying Earnings Per Share ⁽¹⁾

51.9p

Net Cash ⁽⁴⁾

£311m

Total Dividends ⁽²⁾

25.3p/share (£97m)

- ✓ Strong balance sheet – biomass financing secured
- ✓ Robust platform established for biomass transformation

- 1) Excludes unrealised losses on derivative contracts totalling £36m (less tax effect) and based on weighted average number of shares for the year (371.7m shares)
- 2) 50% of underlying earnings (£193m), comprising interim dividend of 14.4p/share (£53m) and final dividend 10.9p/share (£44m)

- 3) Based on the number of shares in issue as at 31 December 2012 (401.6m shares)
- 4) Cash of £402m (including short-term investments of £30m) less borrowings of £91m

2012 Financial Review

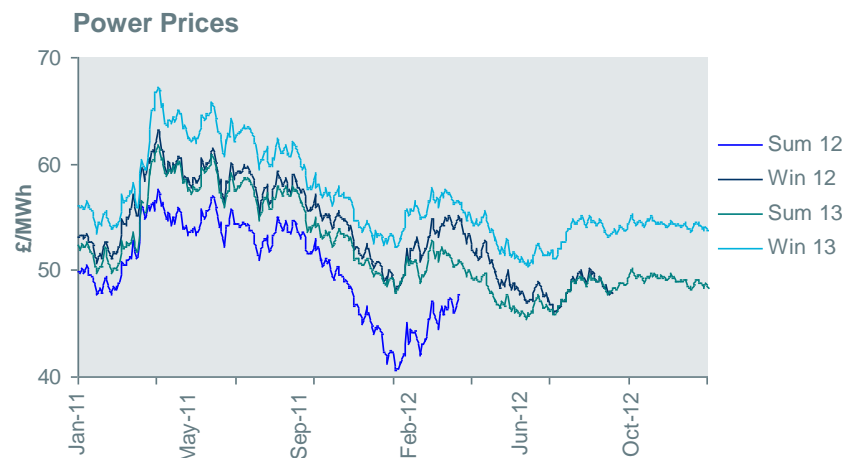
Income Statement - Summary

	2012	2011	% Year-on-Year
Revenue	1,780	1,836	
Cost of Sales	(1,269)	(1,335)	
Gross Margin	511	501	
Operating Costs	(213)	(167)	
EBITDA	298	334	-11%
IAS39 Unrealised Gains / (Losses) on Derivative Contracts	(36)	89	
Depreciation	(58)	(57)	
Operating Profit	204	366	
Net Finance Costs	(14)	(28)	
Profit Before Tax	190	338	
Tax Charge – Before Exceptional Items	(26)	(71)	
Exceptional Tax Credit	-	198	
Reported Earnings	164	465	
Underlying Earnings	193	202	-4%
Reported Earnings Per Share (pence)	44.1	127.3	
Underlying Earnings Per Share (pence)	51.9	55.5	-6%
Total Dividends Per Share (pence)	25.3	27.8	-9%

2012 Financial Review

Income Statement – Revenue

In £m (unless otherwise stated)	2012	2011
Total Revenue	1,780	1,836
Wholesale Power Sales	1,252	1,471
Retail Power Sales	451	275
Electrical Output (Net Sales) (TWh)	27.1	26.4
Average Achieved Price (£ per MWh)	51.3	55.6
ROC/LEC Sales	36	65
Ancillary Services	15	17
Other Revenues	9	8
Fuel Sales Revenues	17	-
Total Other Revenues	77	90



Sources: Brokered Trades, Spectron

Historically recognised ROC benefit in P&L at time of ROC sale

- Similar timing to cash flows

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 profits in 2012

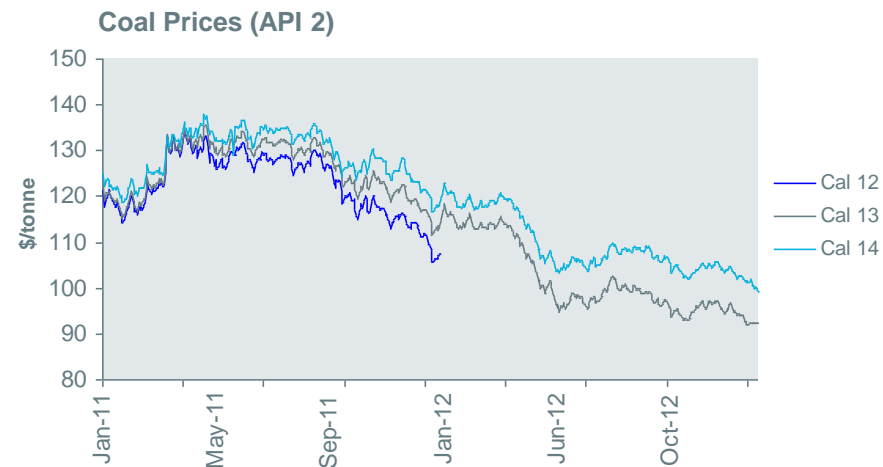
2012 Financial Review

Income Statement – Cost of Sales

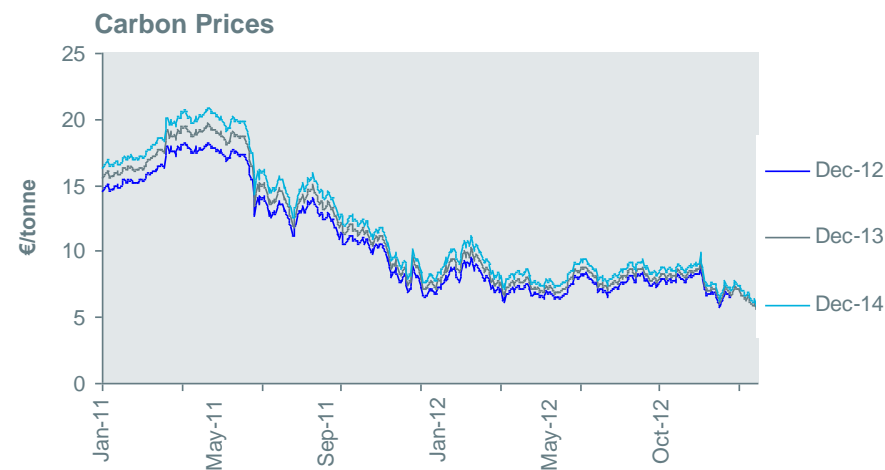
	2012	2011
Total Cost of Sales	£1,269m	£1,335m
Fuel and Carbon Costs ⁽¹⁾	£929m	£1,021m
Cost of Power Purchases	£142m	£172m
Grid Charges and Other Retail Cost of Sales	£198m	£142m
Average Fuel Cost ⁽²⁾ (excl. CO₂ costs)	£30.6/MWh	£33.3/MWh
Average Fuel Cost ⁽²⁾ (incl. CO₂ costs)	£33.7/MWh	£38.7/MWh
Average Cost of Purchased CO₂ Allowances	£6.3/tonne	£12.0/tonne

(1) 2012 includes £20m additional biomass R&D costs

(2) Calculated net of fuel sales of £17m (2011: nil)



Source: McCloskeys, Brokered Trades



Source: ICE ECX

2012 Financial Review

Income Statement – Operating Costs

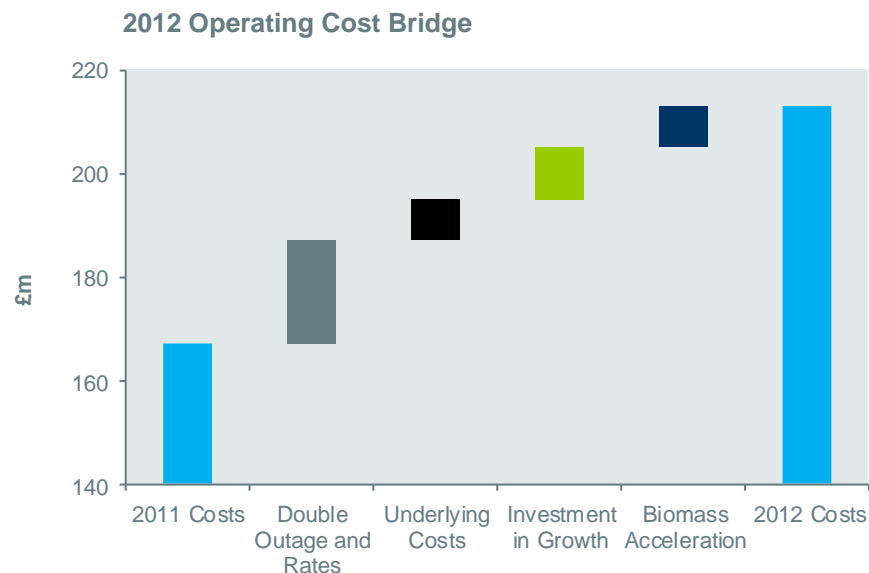
Operating costs 2012: £213m

2012 total operating cost increase £46m

- Previous 2012 operating cost guidance + £38m
 - Double outage and business rates: +£20m
 - Underlying cost inflation: +£8m (5%)
 - Investment in growth: +£10m
- 2012 additional operating costs – biomass acceleration +£8m
 - Maintenance, systems and other costs

2013 operating cost guidance £215m

- Double outage year
- Underlying cost inflation +£3m (1%)
- Growth: Haven and US business +£4m
- End of CESP ⁽¹⁾ -£5m



2012 Financial Review

Capital Investment

Biomass transformation capex: £650m - £700m

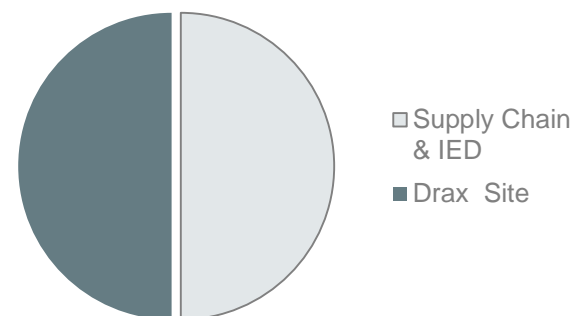
c.50% is substantial equipment installations and modifications at Drax site

- Fuel delivery, storage and distribution

Balance is comprised of:

- Upstream supply chain infrastructure
- IED⁽¹⁾ compliance

Biomass Transformation Capex: £650m - £700m



2012: total capex £224m

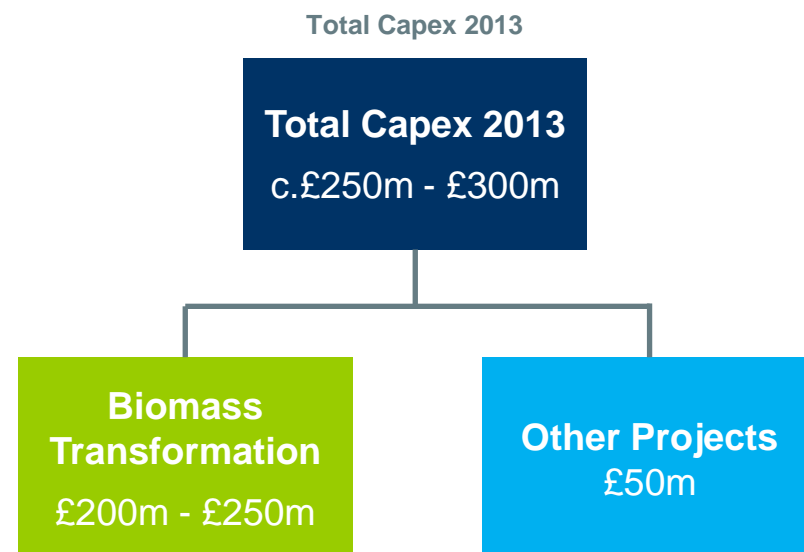
- Inc. £180m for biomass transformation

2013: total capex guidance c.£250m - £300m

- Inc. £50m for plant efficiency and other projects (non-biomass)

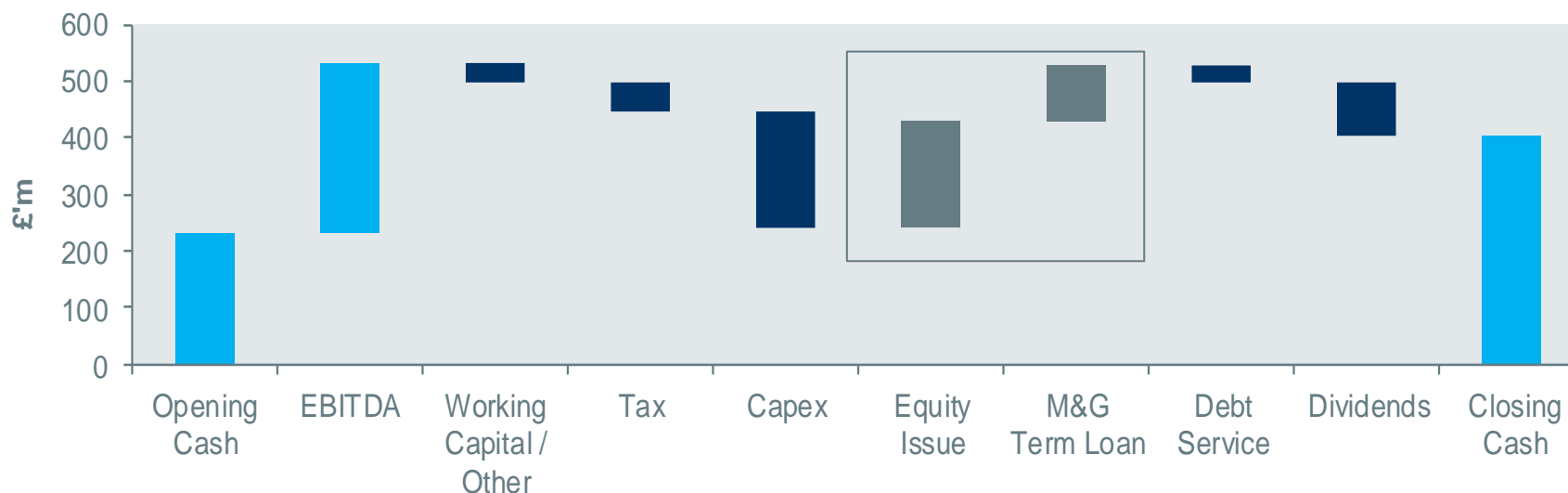
End 2014 expect:

- Drax site biomass investment complete
- US investments very well advanced



2012 Financial Review

Cash Flow



Working Capital / Other
(£35m)

Tax
(£51m)

Capex
(£206m)

Dividends
(£96m)

Closing Cash
£402m

Biomass stocks outflow (£30m)
0.2Mt increase to 0.4Mt

Coal stocks inflow £11m
0.2Mt increase to 1.6Mt

Other net outflow (£16m)

Settlement
2011 liability
Payments on a/c
for 2012

Cash payments for
capex

Final 2011 dividend
of 11.8p/share

Interim 2012 dividend
14.4p/share

Net cash after
borrowings
£311m

2012 Financial Review

Funding and Debt Facilities

Biomass financing secured

New equity: £190m⁽¹⁾

New debt with 6-8 year maturity

- £100m M&G term loan facility (drawn)
- £100m UK Green Investment Bank term loan (undrawn)

£400m working capital and LC⁽²⁾ facility

- 225 basis points margin over LIBOR
- Matures April 2016

Commodity trading line

New Equity
£190m⁽¹⁾

New Debt
M&G £100m
UK GIB £100m

**Working Capital
and LC Facility**
£400m

**Commodity
Trading Line**

(1) Gross proceeds

(2) LC = Letter of Credit

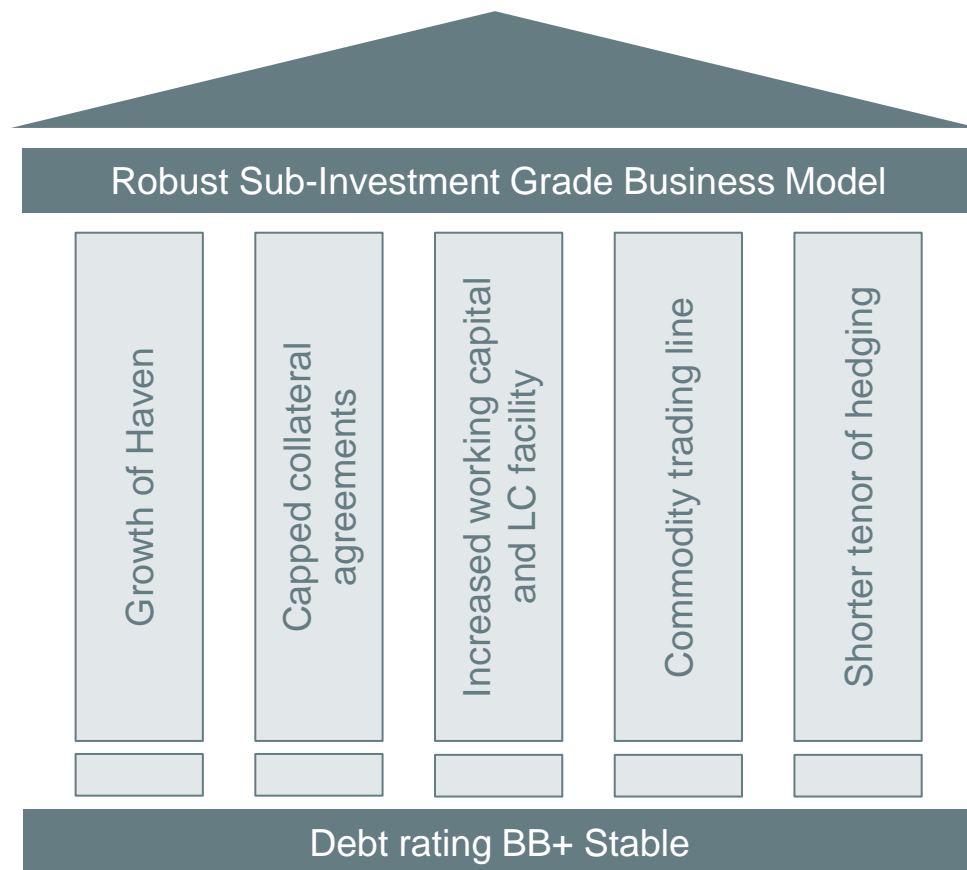
2012 Financial Review

Credit Rating and Business Model

Debt rating: BB+ stable

Robust sub-investment
grade business model

Negligible collateral calls on
downgrade to BB+



2012 Financial Review

Economics of the Biomass Transformation

Financial impact of transformation

- Potential for substantial improvement in EBITDA from 2015 and beyond
- Under many reasonable scenarios

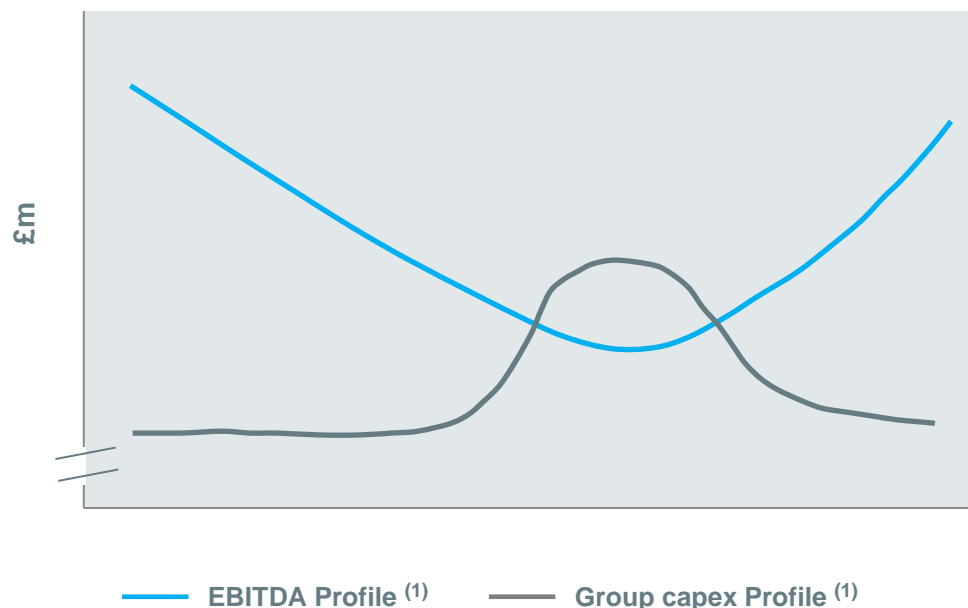
Investment in the transformation

- Capex: £650m - £700m
- Attractive returns

2013 and 2014 EBITDA below recent levels

- EU ETS Phase III
- UK carbon tax
- 2013 one-time costs of first unit conversion: £20m (gross margin)
 - Temporary off-site fuel storage
 - Lower unit availability – conversion outage and use of co-firing systems

EBITDA and Capex Profile ⁽¹⁾



(1) Forward looking profiles are illustrative only – not profit or capex guidance

2012 Financial Review

Summary

✓ Strong balance sheet –
biomass financing secured

✓ Robust platform established
for business transformation

✓ Potential for substantial EBITDA
growth from 2015 and beyond



Biomass Transformation – Milestones

Dorothy Thompson - Chief Executive

Biomass
Sourcing

US
Investments

UK
Infrastructure

Drax
Site

Biomass Transformation

Sustainability

All Drax biomass procured against industry-leading sustainability policy

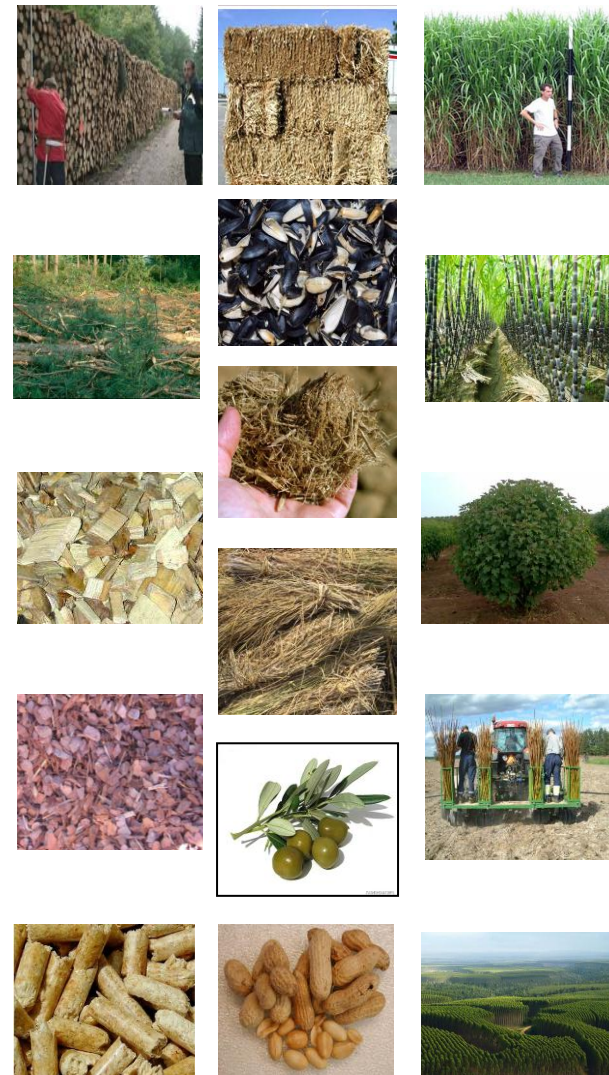
- Low GHG⁽¹⁾ emission compared to coal and gas
- 5th year of carbon foot-printing
- Land use and biodiversity
- Independent audit of supply chain

UK sustainability legislation now in place

- Grandfathered GHG limit of 285kg/MWh to 2020
 - Subject to no EU restrictions
- Consultation on limit of 240kg/MWh post 2020
- Timing and implementation rules to be confirmed

High confidence Drax will meet mandatory limits

Large pellet suppliers and purchasers working to develop robust standards



Biomass Transformation

Fuel Purchasing and Supply Chain

Fuel contracting

- Secured rights to fuel for first unit – c.2Mt for 2013/14 ROC year
- Good progress securing rights to fuel for subsequent units
 - > 3Mt for 2014/15 ROC year, plus limited volume from own pellet production
 - Advanced negotiation for 3rd unit

Key suppliers include:

- Enviva, Green Circle, Pinnacle, Plum Creek

Port, shipping and rail arrangements

- Agreements in place for expansion of UK port capability
 - Tyne – existing 2Mtpa capacity
 - Hull – building 1Mtpa capacity
 - Immingham – contracted 3Mtpa capacity
 - Further expansion under negotiation
- New biomass rail wagons – first 50 in fabrication
 - 1st bespoke biomass wagons
 - Drax owned design
 - Efficient load / unload with full weather protection
 - Carry up to 50% more than current trains



Biomass Transformation

US Pellet Operations

US Gulf pellet operations

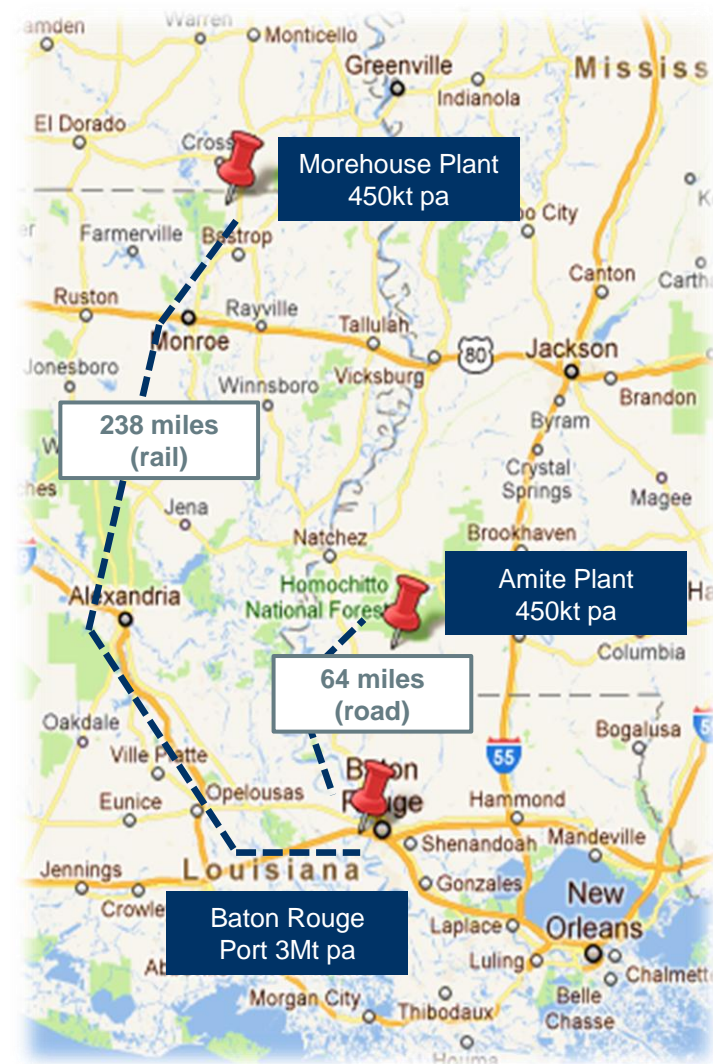
- Investment decision end 2012
- 2 pellet plants – combined capacity 900kt pa
- Port facility – export capacity up to 3Mt pa

Good progress with development

- Land under contract
- Permitting process and engineering design substantially complete
- Advanced negotiation for:
 - Construction contracts
 - Road and rail transport

Targeting summer 2013 for construction start

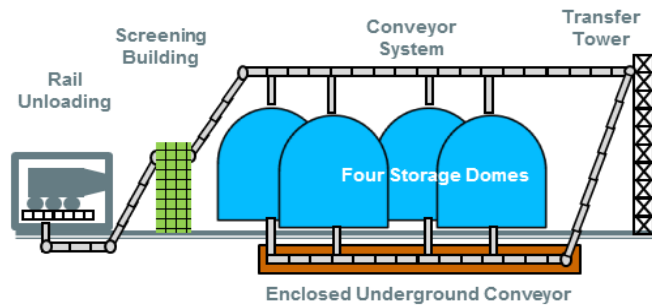
- Final date and schedule dependent on construction negotiations
- Expect 3 month phasing of 2 pellet plants
- Targeting winter 2014/15 for COD⁽¹⁾ of facilities
 - 6 months further to reach full capacity



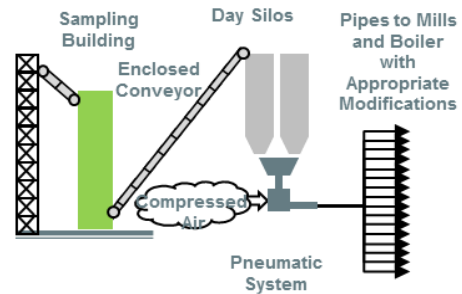
Biomass Transformation

Drax Site Development

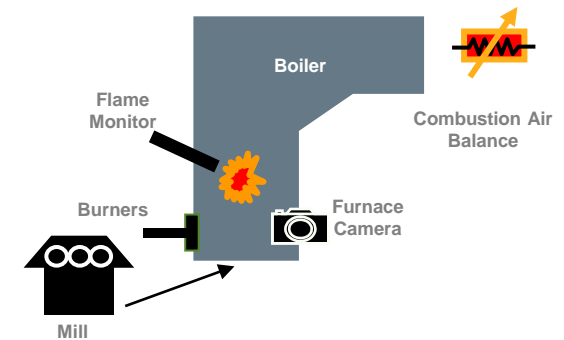
Rail Unloading and Storage



Fuel Distribution



Combustion



Biomass Transformation

Drax Site Film

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Biomass Transformation

2013 – First Unit Milestones



Use of co-firing systems for first unit conversion

- Evolution from 2012 trials
- Direct injection systems plus further plant modifications – 2Mtpa capability
- Not designed with redundancy – converted unit availability c.80% in 2013

Use of temporary off-site fuel storage

- Up to 500kt in 2013

Phase-in of new plant

Biomass Transformation

Milestones and Progress

Biomass Sourcing	Sustainable Fuel Secured	2Mt for 2013/14 ROC year ⁽¹⁾	✓
		4Mt for 2014/15 ROC year	On Track
		6Mt by 2016/17 ROC year	On Track
US Investments	Pellet Plants & Port	Construction start: target summer 2013	In Negotiation
		COD ⁽²⁾ : target winter 2014/15 (full capacity: + 6 months)	
UK Infrastructure	Port Throughput	2Mtpa for 2013/14 ROC year	✓
		4Mtpa for 2014/15 ROC year	On Track
		6Mtpa for 2015/16 ROC year	On Track
	Rail Wagons	50 wagons operational Q1 2014	On Track
		100 wagons operational Q3 2014	
		150 wagons operational Q1 2015	
Drax Site	New Biomass Systems	Fuel distribution fully operational Nov 2013	On Track
		Delivery and storage for 1 unit fully operational Dec 2013	
		Storage for 2 units fully operational Mar 2014	
		Storage for 3 units fully operational Q3 2014	
	I.E.D.	Define IED solution by end 2013	

IED and CCS

Update

Industrial Emissions Directive (IED)

EU agreed implementation arrangements

- Allow flexibility in timing and choice of technology

Assessment of technical solutions well advanced

- Principal solution drivers – fuel mix and plant flexibility
- Define by end 2013

Carbon capture and storage (CCS)

Drax, Alstom, BOC and National Grid

- Demonstration project – new 426MW oxy-fired CCS plant at Drax

2012: application for funding under UK DECC CCS Commercialisation Programme

- Oct 2012: one of four projects selected for further evaluation
- Jan 2013: revised application for FEED⁽¹⁾ funding

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



Conclusion



2012 profits in line with expectations

Continued strength in operations

Strong hedge for 2013

Offset by EU ETS Phase III
And 1st year of UK carbon tax

Biomass transformation

Mandate, means and expertise

Questions



Appendices

1. Definitions
2. Financial Calendar
3. IAS39 Treatment
4. Power Market
5. Gas Market
6. Coal Market
7. Carbon Market
8. Carbon Price Support
9. Commodity Markets
10. UK Generation Capacity
11. Biomass Fuels
12. Biomass Trial Results
13. ROC Banding Review Decisions
14. ROC Mechanics



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 ran 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 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.
NO_x		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.
SO₂		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 CONTINENTAL 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	2013
Annual General Meeting	24 April
Ordinary shares marked ex-dividend	24 April
Record date for final dividend	26 April
Final dividend payment date	17 May
Interim Management Statement	Mid May
Financial Half Year End	30 June
Announcement of Half Year Results	30 July
Interim Management Statement	Mid-November
Financial year end	31 December

Appendix 3: IAS39 Treatment

Financial Instrument	Location of gains and losses in the 2012 Annual Report
Power	Hedge Reserve
International Coal	Hedge Reserve and Income Statement
Financial Coal	Largely Income Statement
Foreign Exchange	Hedge Reserve and Income Statement
Carbon	Hedge Reserve

Appendix 4: Power Market

UK power market

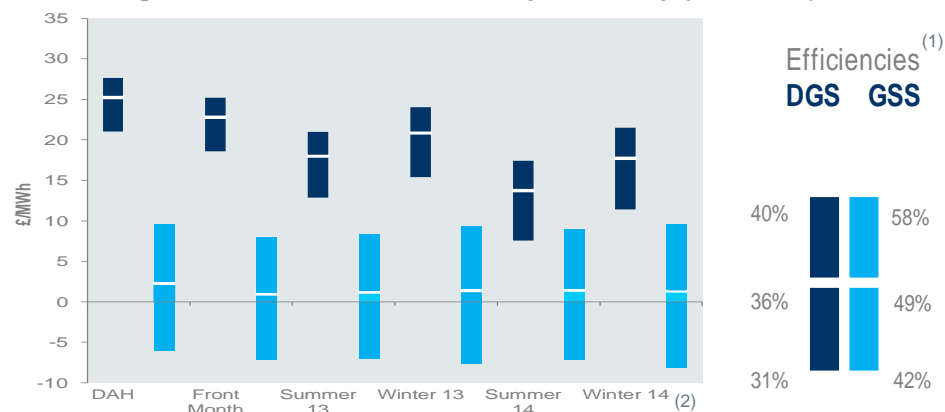
- Power prices continue to be driven by gas market

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
 - Majority of opted out coal plants due for closure this year
 - Oil-fired plant closing prior to full utilisation of running hours

Bark spread correlated to 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

Appendix 5: Gas Market

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
- Increased demand for LNG in South America adding to supply tightness
 - Brazil drought - hydro generation under pressure

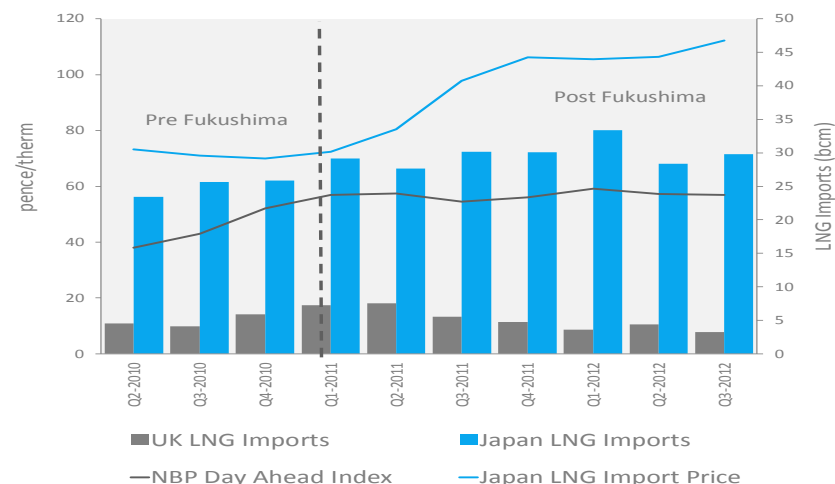
UK spot gas prices remain strong

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

Increased UK import dependency

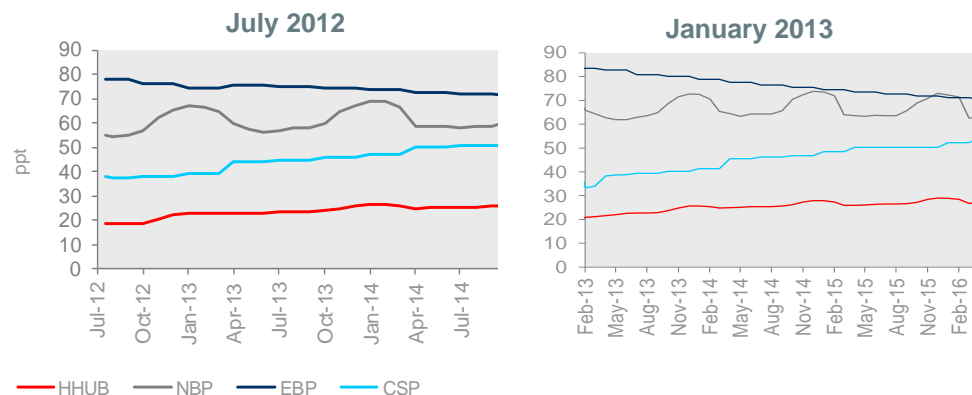
- Continued decline of UKCS

Fukushima Impact on LNG



Source: Bloomberg, DECC, Brokered Trades

NBP, Henry Hub and EBP™ Index Forward Curves

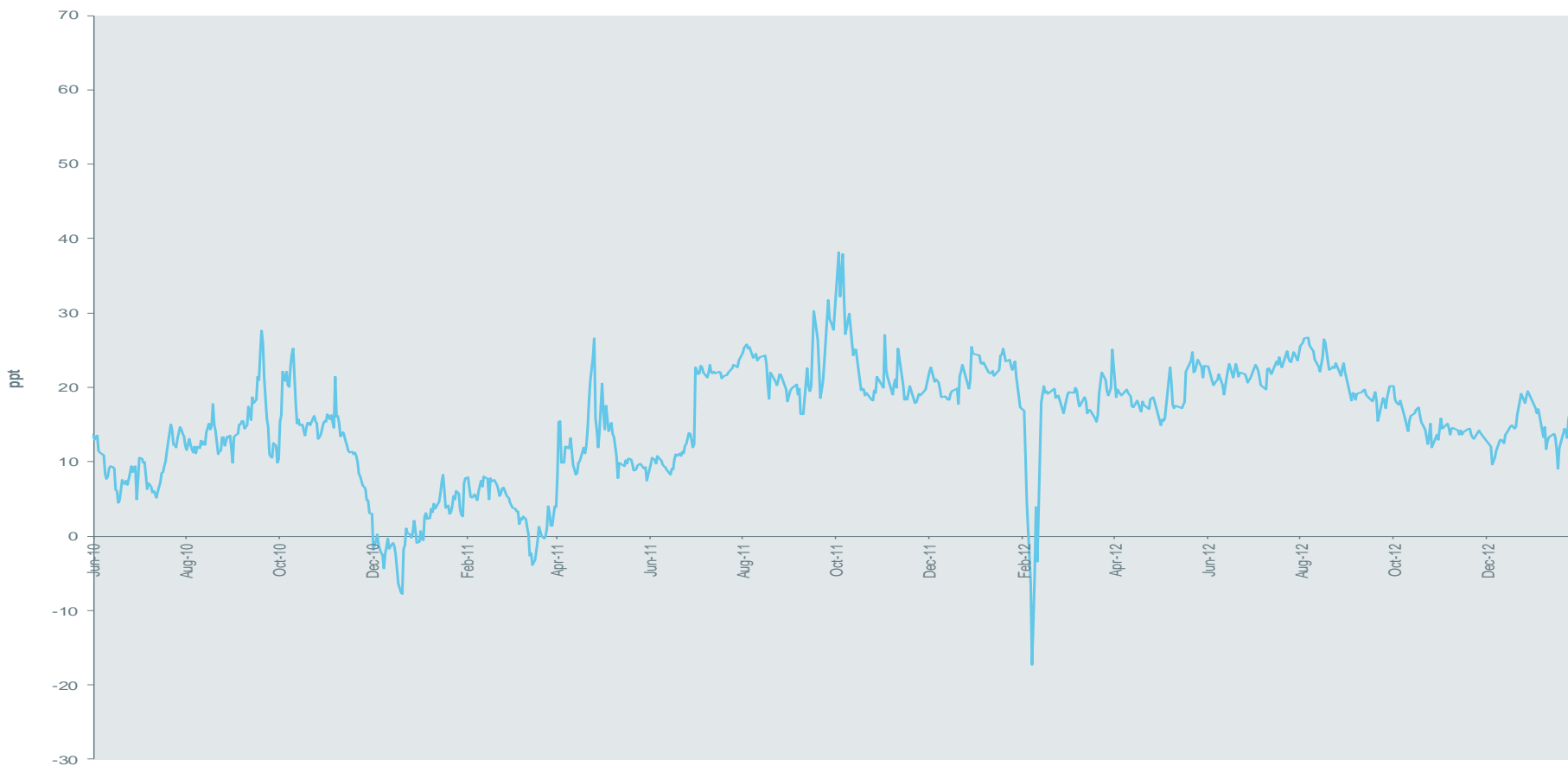


Source: European Benchmark Price (EBP™ Index): Eclipse Energy Group, NBP and Henry Hub: Bloomberg and Brokered Trades. EBP is a trademark owned by Eclipse Energy Group

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: Steam Coal Market

Continued supply driven weakness in global prompt market

- Prompt API2 prices <\$90/t
- UK domestic coal producers under pressure

Chinese seaborne imports up 41% in 2012

- Stock levels hit record highs
- Strong hydro production reduced thermal requirement

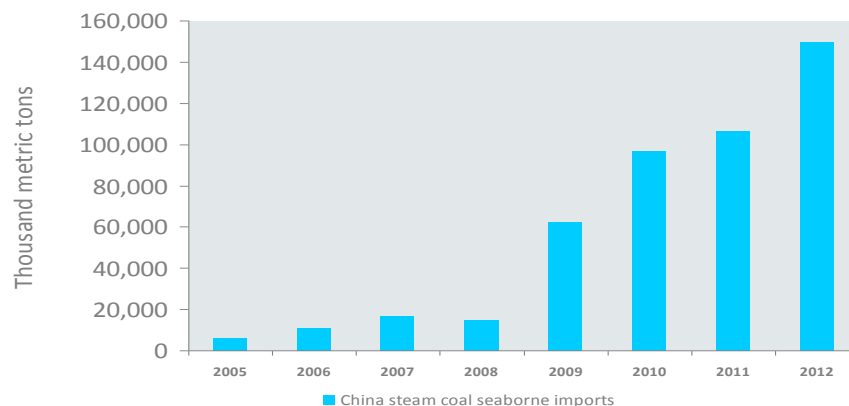
US exports to EU up 77% YoY (Jan-Nov)

- Low US gas prices drive coal to gas switching
- Reduced generation and high stocks
- Low demand – producers look to export market

Steam coal exports up YoY Q1 to Q3

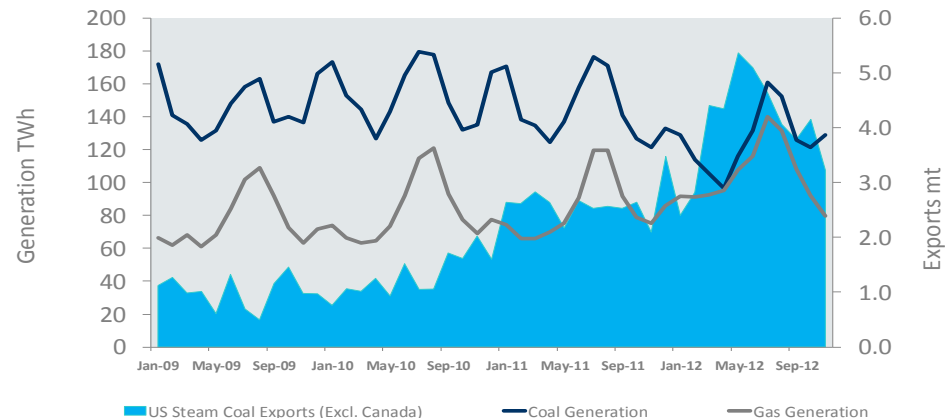
- Australia +15%
- South Africa +14%
- Indonesia +5%
- Colombia +4%

Chinese Seaborne Coal Imports



Source: IHS CERA's Global Steam Coal Advisory Service

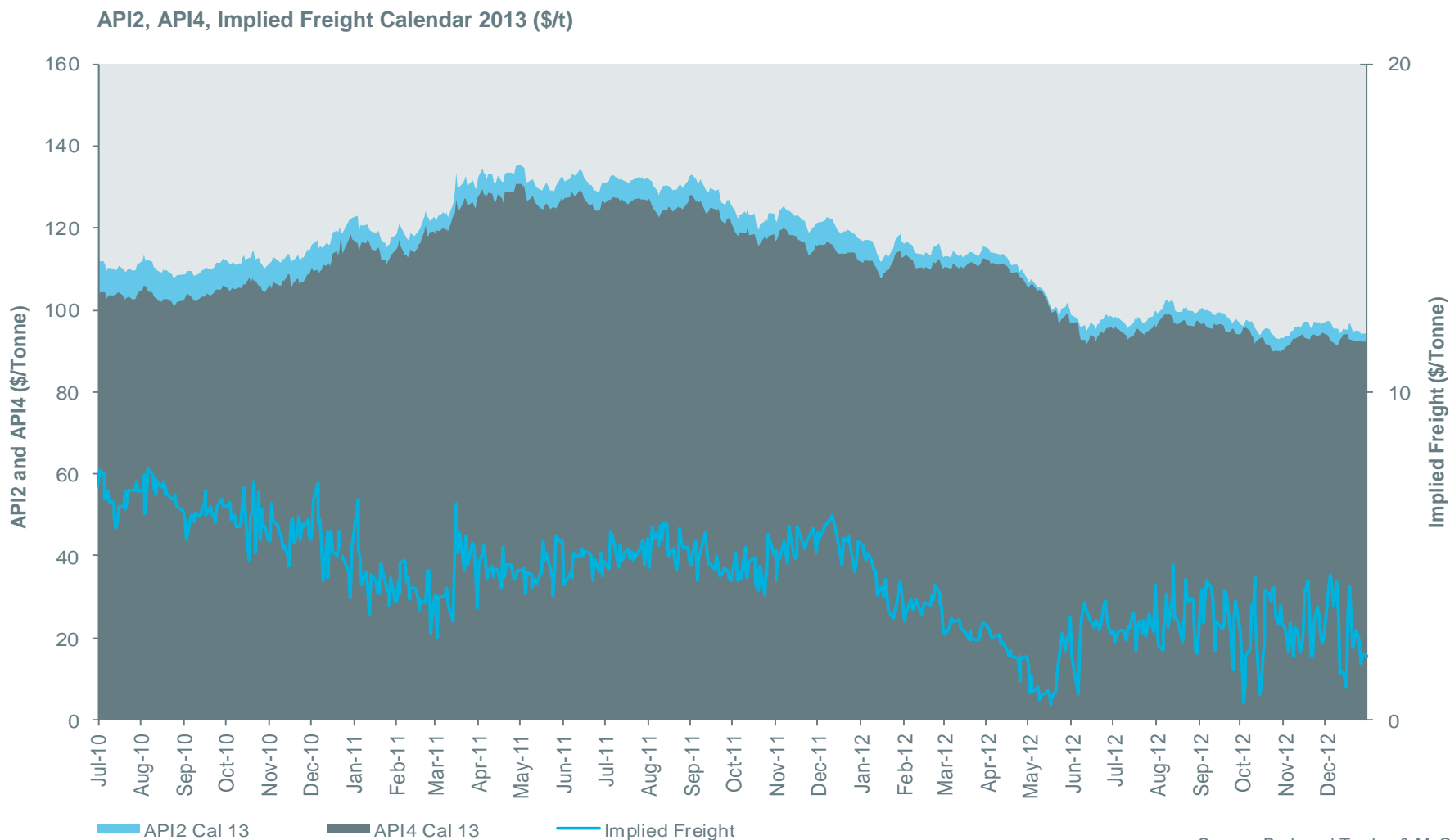
USA: Coal Exports and Gas / Coal Generation



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

Appendix 6: Coal Market

API2, API4, Implied Freight



Source: Brokered Trades & McCloskey

Appendix 7: Carbon Market

Phase III EUAs – new lows early 2013

Driven by Phase II over-supply and weak European economies

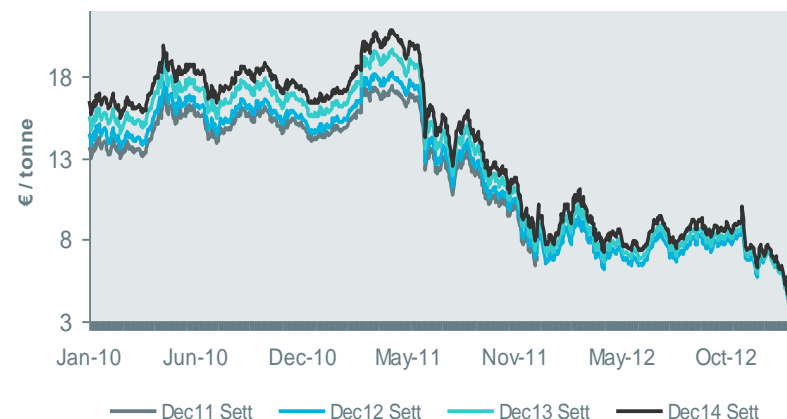
Phase II surplus bankable into Phase III (2013 to 2020)

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

Continued uncertainty on whether the temporary removal of EUAs from the market will be achieved

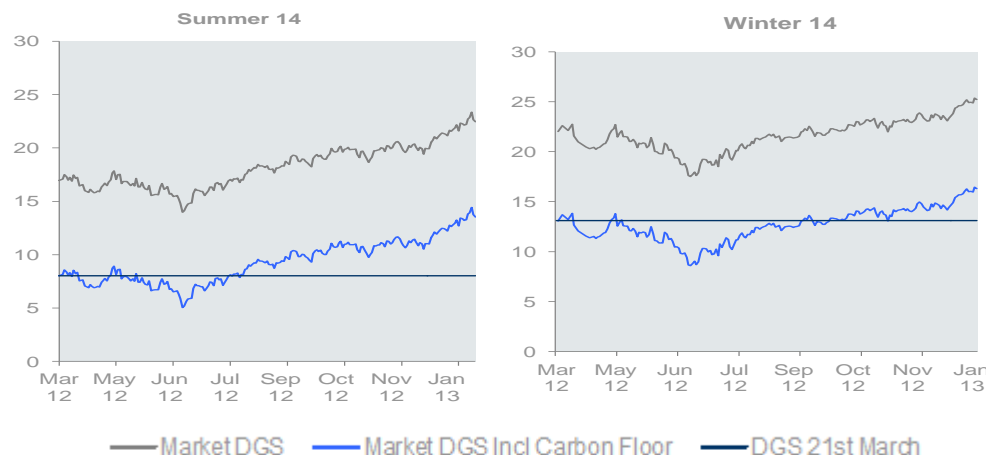
Introduction of UK CO₂ price support

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

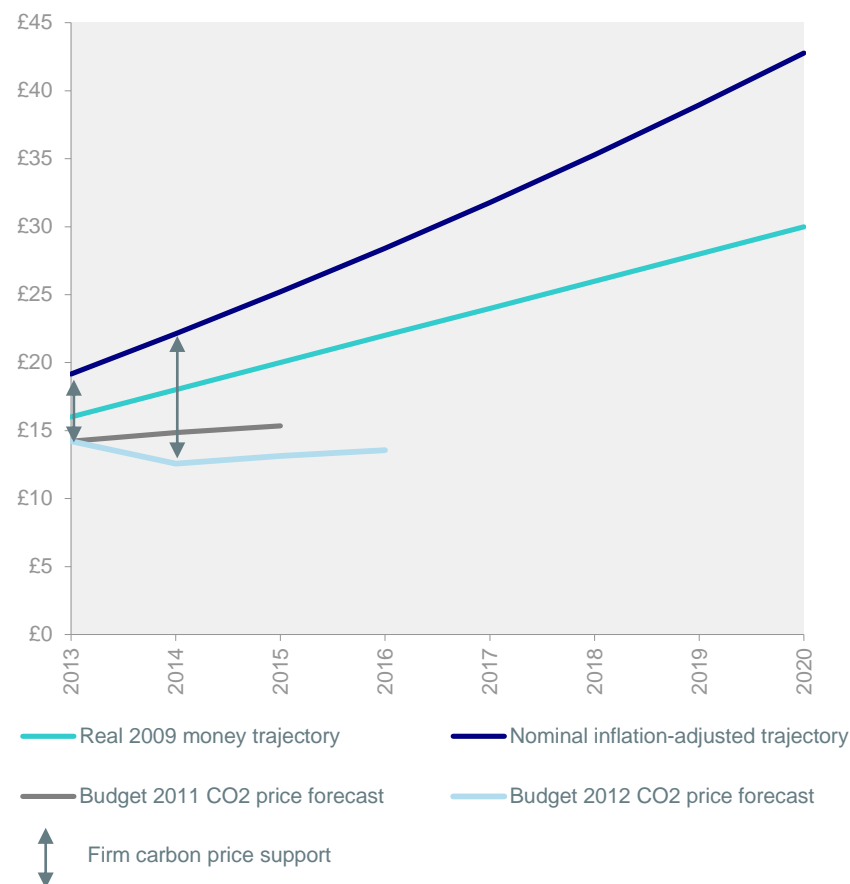
Climate Change Levy (CCL) amended to indirectly supplement EU ETS carbon price

- 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 estimate of 2015/16 rate is £18/tonne CO₂ – will be fixed in Budget 2013

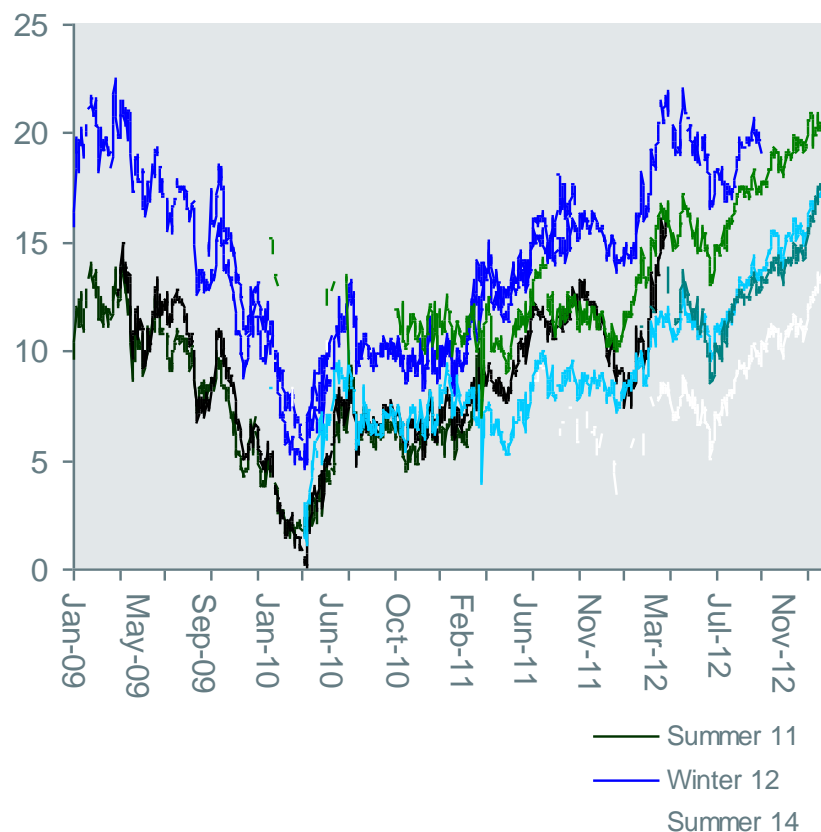
HMT Projected Carbon Price Support to 2020



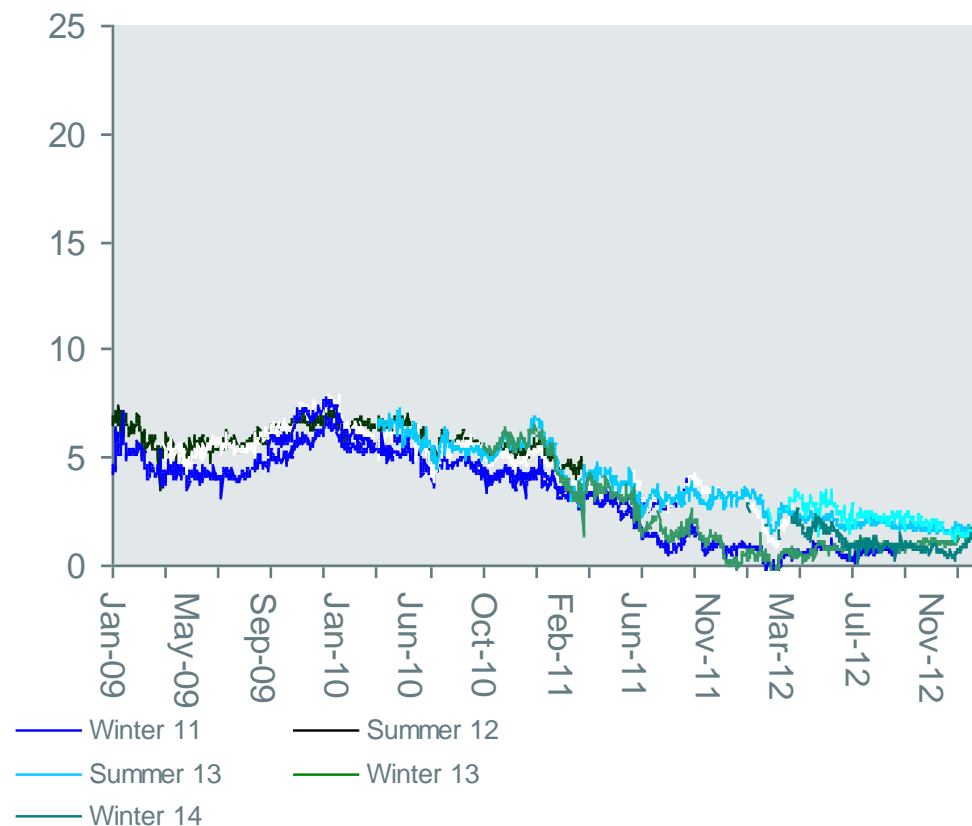
Appendix 9: Commodity Markets

UK Forward Spread Movements – to 6 February 2013

Dark Green Spread (£/MWh)



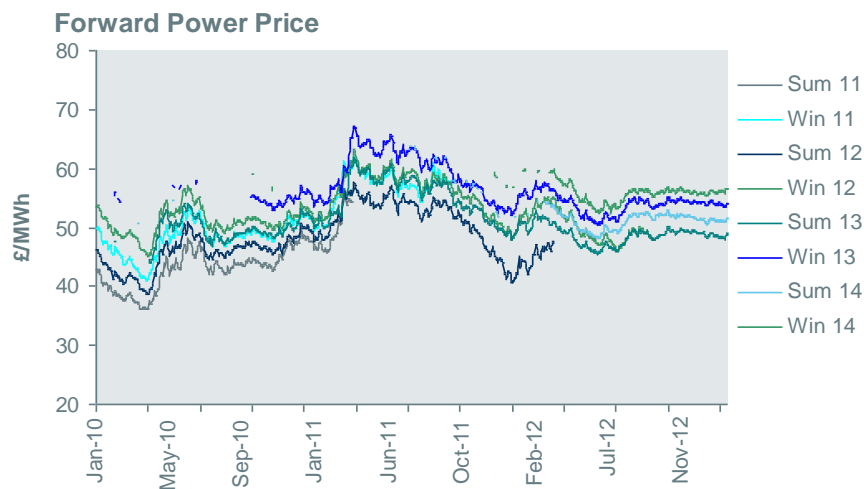
Green Spark Spread (£/MWh)



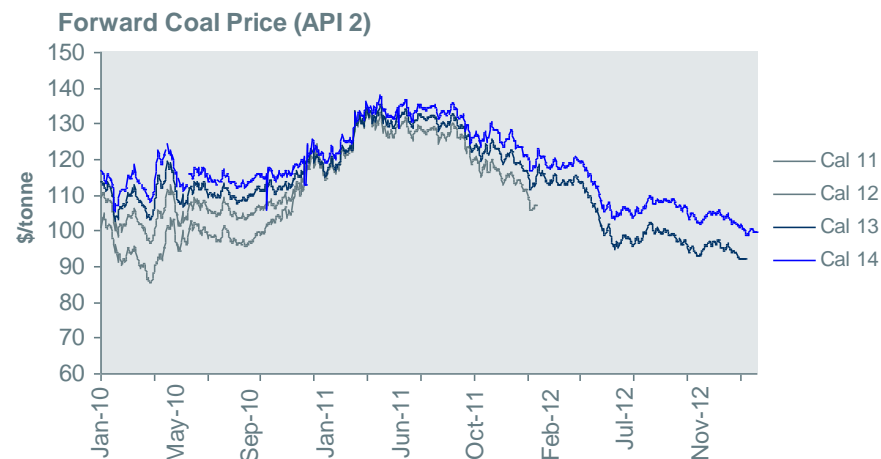
Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49%

Appendix 9: Commodity Markets

Commodity Price Movements – to 6 February 2013



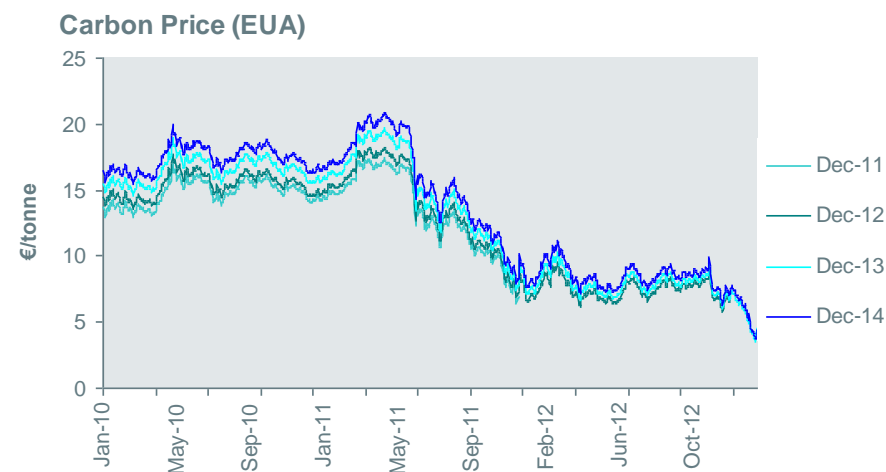
Sources: Brokered Trades, Prebon, Spectron, ICAP, GFI



Source: Brokered Trades, McCloskey



Source: Brokered Trades, Spectron



Source: ICE ECX

Appendix 10: UK Generation Capacity

Ofgem Assessment

Significant uncertainty

- **Key drivers:**
 - Gas plant closures
 - Gas plant new build
 - Interconnector flows

Ofgem capacity assessment conclusions:

- Base case de-rated margin decline to 4% by 2016
- Wide range of possible outcomes

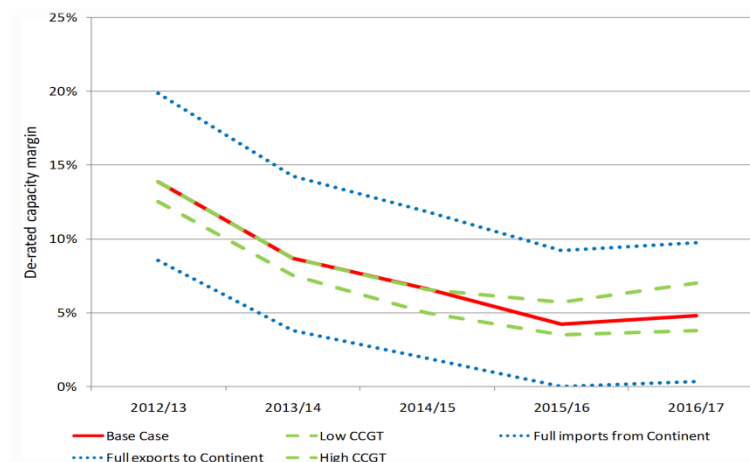
Key Ofgem generation supply assumptions

Installed capacity changes by 2016/17
(from 2012/13 base year):

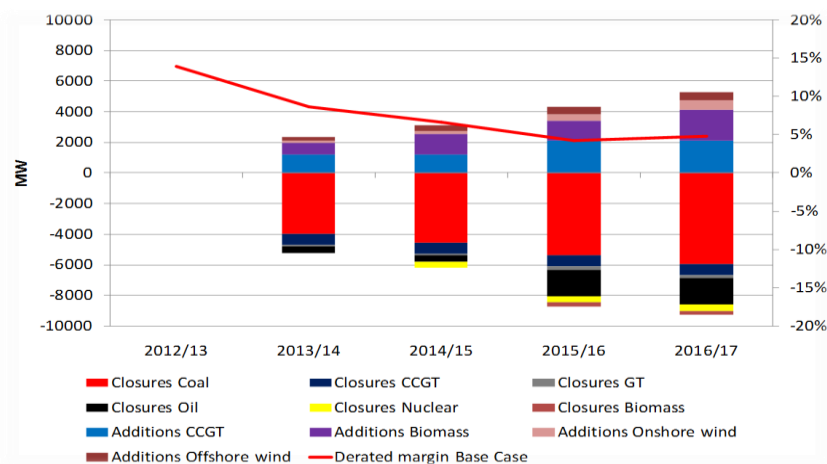
- **LCPD: 7GW coal and oil closes**
- **1GW gas closes**
- **2GW new gas (or return to service)**
- **2GW new biomass**
- **5GW new wind**

(1) Source: Ofgem Electricity Capacity Assessment (October 2012)
De-rated margin = excess of available capacity to peak demand expressed as a %
De-rating factors estimated by Ofgem based on historical availability

Ofgem De-rated Capacity Margin Projections ⁽¹⁾



Ofgem De-rated Capacity Margin and Changes ⁽¹⁾



Appendix 10: 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 (Elxon – Feb 2013)
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	Closed
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 26%
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 6%
Uskmouth	Scottish & Southern Energy	Coal	393	393	0	393	0	
Didcot A	RWE npower	Coal	1940	0	0	0	1940	13%
Tilbury*	RWE npower	Coal	1020	0	0	0	1020	BOIL 7&8 21% BOIL 9&10 20%
Aberthaw	RWE npower	Coal	1455	1455	0	1455	0	
Grain	E.ON UK	Oil	c.1300	0	0	0	c.1300	Closed
Littlebrook	RWE npower	Oil	c.1100	0	0	0	c.1100	87%
Fawley	RWE npower	Oil	c.1000	0	0	0	c.1000	92%
Total			31301	19899	8134	11765	11402	

Source: Elxon, Oxera, Drax data as at February 2013

* RWE has announced conversion of Tilbury to 100% biomass

Appendix 11: Biomass Fuels

Forestry Residuals



Forestry thinnings



Harvesting residues



**Chips/
Sawdust**



Bark



Wood pellets

Agricultural By-products



Wheat/Oat straw



Sunflower husks



Sugarcane bagasse



Rice straw



Olive pulp



Nut shell

Energy Crops



Miscanthus & switchgrass



Bamboo



Jatropha



Short Rotation Coppice (e.g. Willow)



Short Rotation Forestry (e.g. Eucalyptus)

Appendix 12: Biomass Trial Results

Demonstrated technical capability to convert Drax units fully to biomass

Trialled range of additives to:

- Enable high availability
- Contribute to efficiency and output performance

Developed technical solutions to deliver:

- Reliable and flexible generation
- Attractive rates of efficiency and output
 - Efficiency c.1.5% lower than coal
 - Output c.10% lower than coal
- Early availability c.80% – in time expect similar to coal

Work on-going

- Additives
- Corrosion test results
- Optimisation of NOx performance



DI ⁽¹⁾ Fuel
Distribution



Burners



Biomass
Combustion

Appendix 13: 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 ⁽¹⁾ (< 50%)	0.5	0.3 – 0.5
Enhanced co-firing (51% - 84%) ⁽²⁾	0.5	0.6
Enhanced co-firing (85% - 99%) ⁽²⁾	0.5	0.7 (2013 – 2015) 0.9 (2015+)
Conversion ⁽²⁾	0.5	1.0
Dedicated biomass	1.5	1.5 1.4 (2016+)

(1) Subject to consultation

(2) Excluding allowance of up to 10% additives

Appendix 14: 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. £41/MWh

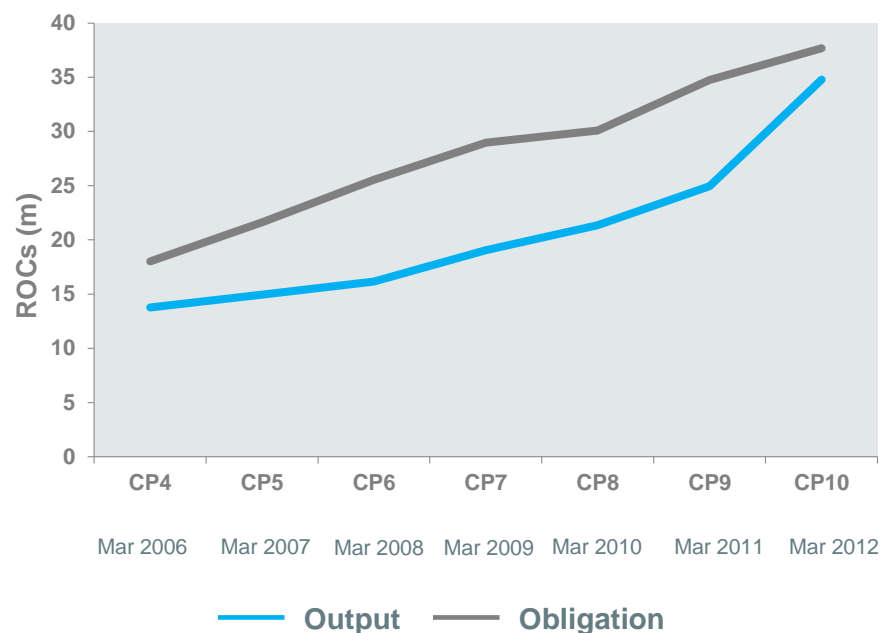
Mechanism in place to ensure:

- 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 14: 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 in 2012

Exploring menu of options to accelerate ROC cash flows

- Better match with earnings

Balance Sheet Movement: ROC and LEC Assets	£m
At 1 January 2012	32
Generated	32
Sold or Utilised	(45)
At 31 December 2012	19

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Preliminary Results

Year Ended 31 December 2012

19 February 2013

