Agenda

H1 2013 Business Performance
Dorothy Thompson
Chief Executive

H1 2013 Financial Review
Tony Quinlan
Finance Director

Business Review
Dorothy Thompson
H1 2013 Summary
Dorothy Thompson – Chief Executive

H1 2013 profits in line with expectations
Increasing cost of carbon
Good operations - extensive activity at Drax site

Strong near-term hedge
Doubled 2014 hedge in H1

Biomass transformation
First converted unit performing to plan
Capital investments on schedule and budget

EBITDA
£120m

Underlying Earnings Per Share
17.3p

Interim Dividend
8.7p/share (£35m)
Operational Performance

Group

Maintaining world class standards of safety
- > 50% increase in hours worked to 3.4m hours
- 4,200 safety inductions (H1 2012: 2,900)

Coal

82% Availability (H1 2012: 85%)
- 7.6% forced outage rate (H1 2012: 4.4%)
  - Impact of ash bridge
- Long-term FOR target remains 5%
- 11.1% planned outage rate (H1 2012: 10.8%)

78% Load Factor (H1 2012: 82%)
Operational Performance – Biomass

Technical performance to plan

**Unit fuelled using existing co-firing systems**
- Output up to 585MW (c.10% lower than coal) with stable combustion and no loss of flexibility
  - No significant slagging, fouling or corrosion
  - Significant NOx benefit vs. coal demonstrated
  - Efficiency modifications effective

**76% Availability**
- Technical outage rates in line with plan
  - Forced outage rate 13%
  - Planned outage rate 13%

**57% Load Factor**
- Temporary fuel delivery systems

First Converted Unit Output – July 2013

Physical Notifications – July 2013

Source: Drax, Balancing Mechanism Reporting Agent data
Credit-efficient route to market

Targeting 12 - 15TWh by 2015
• Sales growth remains business priority
  - I&C and SME markets (1)

Substantial growth 2013
• Retail sales £323m (H1 2012: £219m)
• 7.3TWh already contracted for next 12 months
• Bad debt experience remains low

Significant customer wins

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1) I&C = Industrial and Commercial, SME = Small and Medium Enterprises
2) NBP = Notional Balancing Point
## Positions Under Contract

<table>
<thead>
<tr>
<th>Positions Under Contract as at 22 July 2013</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Power Sales – TWh</strong></td>
<td></td>
<td></td>
<td></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>24.4</td>
<td>17.1</td>
<td>5.1</td>
</tr>
<tr>
<td>• Fixed margin and structured contracts TWh</td>
<td>23.1 @ 51.4</td>
<td>14.5 @ 53.5</td>
<td>3.2 @ 56.1</td>
</tr>
<tr>
<td><strong>Carbon – TWh equivalent</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Emissions allowances hedged (market purchases and structured contracts)</td>
<td>1.3</td>
<td>2.6</td>
<td>1.9</td>
</tr>
<tr>
<td><strong>Solid Fuel – TWh equivalent</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>At fixed price / hedged (including structured contracts)</td>
<td>25.6</td>
<td>22.6</td>
<td>13.1</td>
</tr>
</tbody>
</table>

**Almost fully hedged for 2013; more than doubled 2014 hedge in H1**

**Framework for hedging**

- Coal business – shorter term margin hedge
  - Power market liquidity generally limited to 4 seasons forward
- Biomass business – long-term fuel hedge
- Sub-investment grade
  - Credit access and collateral exposure management

**Going forward will disclose only power sales position for current year and year +1**
## H1 2013 Financial Review

**Tony Quinlan – Finance Director**

<table>
<thead>
<tr>
<th>EBITDA</th>
<th>Net Cash (2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>£120m</td>
<td>£245m</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Underlying Earnings Per Share (1)</th>
<th>Interim Dividend</th>
</tr>
</thead>
<tbody>
<tr>
<td>17.3p</td>
<td>8.7p/share (£35m)</td>
</tr>
</tbody>
</table>

- H1 2013 profits – in line with expectations
- Year on year reduction – increasing cost of carbon
- Strong balance sheet
- Strong hedge – doubled 2014 forward sales in H1

1) Excl. unrealised gains on derivative contracts of £123m (less tax effect)
2) Cash of £460m (incl. short-term investments of £20m) less borrowings of £215m
## Income Statement – Summary

<table>
<thead>
<tr>
<th></th>
<th>H1 2013</th>
<th>H1 2012</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>919</td>
<td>868</td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(703)</td>
<td>(613)</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Margin</strong></td>
<td>216</td>
<td>255</td>
<td></td>
</tr>
<tr>
<td>Operating Costs</td>
<td>(96)</td>
<td>(101)</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>120</td>
<td>154</td>
<td>-22%</td>
</tr>
<tr>
<td>IAS39 Unrealised Gains / (Losses) on Derivative Contracts</td>
<td>123</td>
<td>21</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(29)</td>
<td>(28)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>214</td>
<td>147</td>
<td></td>
</tr>
<tr>
<td>Net Finance Costs</td>
<td>(8)</td>
<td>(6)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit Before Tax</strong></td>
<td>206</td>
<td>141</td>
<td></td>
</tr>
<tr>
<td>Tax Charge</td>
<td>(42)</td>
<td>(20)</td>
<td></td>
</tr>
<tr>
<td><strong>Reported Earnings</strong></td>
<td>164</td>
<td>121</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Earnings</strong></td>
<td>70</td>
<td>106</td>
<td>-34%</td>
</tr>
<tr>
<td><strong>Reported Basic Earnings Per Share (pence)</strong></td>
<td>40.8</td>
<td>33.1</td>
<td></td>
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<tr>
<td><strong>Underlying Basic Earnings Per Share (pence)</strong></td>
<td>17.3</td>
<td>28.9</td>
<td>-40%</td>
</tr>
<tr>
<td><strong>Interim Dividend Per Share (pence)</strong></td>
<td>8.7</td>
<td>14.4</td>
<td>-40%</td>
</tr>
</tbody>
</table>
Corporation Tax (CT) rates
- 23.25% for 2013 and 24.5% for 2012

Adjustments to prior year taxes now agreed with HMRC
- R&D tax relief and capital allowance claims

Impact of reduction in CT rate on deferred taxes
- Revaluation of deferred tax liability
- H1 2012: 1% reduction in CT rate
- H2 2013: 3% reduction in CT rate, to be recognised when legislation enacted (July)
  - Results in underlying deferred tax credit c.£20m

### H1 2013 Tax

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>H1 2013</th>
<th>H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Before Tax</td>
<td>206</td>
<td>141</td>
</tr>
<tr>
<td>Tax at CT Rate</td>
<td>48</td>
<td>35</td>
</tr>
<tr>
<td>Adjustment to Prior Year Taxes</td>
<td>(6)</td>
<td>(8)</td>
</tr>
<tr>
<td>Impact of Reduction in CT rate on Deferred Tax</td>
<td>-</td>
<td>(7)</td>
</tr>
<tr>
<td>Tax Charge</td>
<td>42</td>
<td>20</td>
</tr>
<tr>
<td>Effective Tax Rate – on Profit Before Tax</td>
<td>20%</td>
<td>14%</td>
</tr>
<tr>
<td>Effective Tax Rate – on Underlying Profit Before Tax</td>
<td>16%</td>
<td>12%</td>
</tr>
</tbody>
</table>
## Income Statement – Revenue

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>H1 2013</th>
<th>H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Revenue</td>
<td>919</td>
<td>868</td>
</tr>
<tr>
<td>Wholesale Power Sales</td>
<td>582</td>
<td>627</td>
</tr>
<tr>
<td>Retail Power Sales</td>
<td>323</td>
<td>219</td>
</tr>
<tr>
<td>Other Revenues</td>
<td>14</td>
<td>22</td>
</tr>
<tr>
<td>Electrical Output (Net Sales) (TWh)</td>
<td>12.6</td>
<td>13.6</td>
</tr>
<tr>
<td>Average Achieved Price (£ per MWh)</td>
<td>50.1</td>
<td>52.0</td>
</tr>
</tbody>
</table>

### Power Prices

![Source: Brokered Trades, Spectron](image)

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### Income Statement – Cost of Sales

<table>
<thead>
<tr>
<th></th>
<th>H1 2013</th>
<th>H1 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Cost of Sales</strong></td>
<td>£703m</td>
<td>£613m</td>
</tr>
<tr>
<td><strong>Fuel Costs</strong> (1)</td>
<td>£325m</td>
<td>£417m</td>
</tr>
<tr>
<td><strong>Carbon Tax</strong></td>
<td>£14m</td>
<td>-</td>
</tr>
<tr>
<td><strong>Cost of Carbon Allowances</strong></td>
<td>£70m</td>
<td>£38m</td>
</tr>
<tr>
<td><strong>Cost of Power Purchases</strong></td>
<td>£146m</td>
<td>£58m</td>
</tr>
<tr>
<td><strong>Grid Charges and Other Retail Cost of Sales</strong></td>
<td>£148m</td>
<td>£100m</td>
</tr>
<tr>
<td><strong>Average Fuel Cost (excl. CO₂ costs)</strong> (2)</td>
<td>£26.9/MWh</td>
<td>£30.7/MWh</td>
</tr>
<tr>
<td><strong>Number of Purchased CO₂ Allowances Expensed</strong></td>
<td>10.2m</td>
<td>6.5m</td>
</tr>
<tr>
<td><strong>Average Cost of Purchased CO₂ Allowances</strong></td>
<td>£6.9/tonne</td>
<td>£5.9/tonne</td>
</tr>
</tbody>
</table>

(1) H1 2012 includes £15m additional biomass R&D costs
(2) Incl. carbon tax (charged on coal deliveries and recognised as fuel cost on burn)
Fuel and ROC Accounting

Income statement and balance sheet include value of ROCs / LECs generated

**Income statement – cost of fuel**
- H1 2013 £339m (£26.9/MWh), comprising:
  - Cost of coal, carbon tax and biomass
  - Less estimate ROC / LEC value generated

**Balance sheet - ROC / LEC assets**
- £60m at 30 June 2013, comprising:
  - Estimate of cumulative ROC / LEC value generated not sold

**Subsequent sale of ROCs / LECs**
- Sales value in revenue and receivables
- Original estimate balance sheet value charged to cost of sales

**ROC receivable cash flows**
- Options to accelerate ROC cash flows

### H1 2013 Income Statement – Fuel Costs

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
<th>£/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, Carbon Tax and Biomass</td>
<td>380</td>
<td>30.2</td>
</tr>
<tr>
<td>ROC / LEC Value Generated</td>
<td>(41)</td>
<td>(48.0)</td>
</tr>
</tbody>
</table>

### H1 2013 Balance Sheet – ROC and LEC Assets

<table>
<thead>
<tr>
<th>Description</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>At 31 December 2012</td>
<td>19</td>
</tr>
<tr>
<td>ROCs / LECs Generated</td>
<td>41</td>
</tr>
<tr>
<td>Sold or Utilised</td>
<td>-</td>
</tr>
<tr>
<td>At 30 June 2013</td>
<td>60</td>
</tr>
</tbody>
</table>
Operating Costs

Operating costs – £96m in H1 2013

H1 2013 total operating cost decrease £5m
- End of CESP (1) -£3m

Full year 2013 operating cost guidance unchanged at £215m (2012: £213m)
- Double outage year
- Investment in growth: Haven and US business +£4m
- Underlying cost inflation +£3m (1%)
- End of CESP (1) -£5m

(1) CESP = Community Energy Saving Programme
Biomass transformation capex on schedule and on budget

H1 2013 total capex £138m
  - Inc. £106m for biomass transformation

Full year 2013 total capex guidance unchanged at c.£250m – £300m
  - Incl. £50m for plant efficiency and other projects (non-biomass)

End 2014 expect:
  - Drax site biomass investment largely complete
  - US investments very well advanced

<table>
<thead>
<tr>
<th>Drax (excl. IED) and US Supply Chain</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Previous Years</td>
<td>185</td>
</tr>
<tr>
<td>2013</td>
<td>200 – 250</td>
</tr>
<tr>
<td>2014</td>
<td>150 – 200</td>
</tr>
<tr>
<td>Total to end 2014</td>
<td>550 – 600</td>
</tr>
</tbody>
</table>
Cash Flow

<table>
<thead>
<tr>
<th>Working Capital / Other</th>
<th>ROCs / LECs</th>
<th>Tax</th>
<th>Capex</th>
<th>Dividends</th>
<th>Closing Cash</th>
</tr>
</thead>
<tbody>
<tr>
<td>£50m</td>
<td>(£41m)</td>
<td>(£13m)</td>
<td>(£133m)</td>
<td>(£44m)</td>
<td>£460m</td>
</tr>
</tbody>
</table>

- Biomass stocks outflow (£7m) Stocks of 0.4Mt
- Coal stocks outflow (£44m) 0.8Mt increase to 2.4Mt
- Other net inflow £101m Largely seasonal

- Increase in ROCs / LECs
- Settlement 2012 liability
- Cash payments for capex
- Final 2012 dividend of 10.9p/share
- Net cash after borrowings £245m
Financing structure enhanced in 2013

£75m Friends Life term loan (4-5 year maturity)
- Underpinned by guarantee from Infrastructure UK
- Replaced £50m of £100m UK Green Investment Bank term loan

Commodity trading line – capacity extended

Biomass funding secured in 2012

New equity: £190m

New debt
- £100m M&G term loan facility (6-8 year maturity)
- £50m UK Green Investment Bank term loan (6-8 year maturity)

£400m working capital and LC(2) facility
- 225 basis points margin over LIBOR
- Matures April 2016

Credit rating BB+
- Robust sub investment grade business model
- Negligible additional collateral calls

(1) Gross proceeds
(2) LC = Letter of Credit
Financial Review – Summary

Strong balance sheet – biomass financing enhanced

Biomass transformation investments – on schedule and on budget

2013 EBITDA impacted by increasing cost of carbon

Potential for substantial EBITDA growth from 2015 and beyond
Biomass Sustainability
Dorothy Thompson – Chief Executive

All Drax biomass procured against well established sustainability policy

• Sustainable sourcing
  - No depletion of carbon stock at source
• Low GHG(1) emissions compared to coal and gas
  - 5th year of life cycle carbon foot-printing
• Independent audit of supply chain

DECC working closely with industry to develop appropriate and robust mandatory standards

• No change expected in policy direction
• Publication of DECC decisions imminent

Large biomass users working together on common procurement provisions for sustainability

(1) GHG = greenhouse gas

“These proposals make clear our commitment to ensuring that the use of biomass is sustainable, both for the environment, and for the consumer”

Rt Hon Ed Davey MP
Biomass Electricity and CHP Heat – Ensuring Sustainability and Affordability
(Sept 2012)
Electricity Market Reform (EMR)

CFDs

Consultation in progress
• Strike prices, some key terms, process for CFDs including early (FID) CFDs

Timetable
• December 2013 final prices published
• April 2014 CFD FID awards
• Contract effectiveness subject to EU state aid approval
• Normal CFD on later timetable

57 applications for CFD FID comprising 18GW across technologies
• No automatic right

Capacity Market

Development progressing
• First auction in 2014 for 2018 delivery

Potential option for coal units only

National Grid consulting on provisions pre-2018
• Interim measures for demand and supply response

“Conversion (…) to sustainable biomass offers a quick, cost-effective way to rapidly decarbonise electricity generation in the short to medium term, as well as contributing to security of supply”

EMR Delivery Plan (July 2013)

Draft CFD Strike Prices

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Onshore Wind</td>
<td>100</td>
<td>100</td>
<td>100</td>
<td>95</td>
<td>95</td>
</tr>
<tr>
<td>Offshore Wind</td>
<td>155</td>
<td>155</td>
<td>150</td>
<td>140</td>
<td>135</td>
</tr>
<tr>
<td>Biomass Conversion</td>
<td>105</td>
<td>105</td>
<td>105</td>
<td>105</td>
<td>105</td>
</tr>
</tbody>
</table>

(1) In 2012 prices and subject to consultation

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Biomass Fuel Purchasing and Supply Chain

Fuel contracting

**Secured rights to fuel for first unit**
- c.2Mt for 2013/14 ROC year

**Good progress with subsequent units**
- > 3Mt for 2014/15 ROC year
- Continue negotiations for the third unit
- Key suppliers: Enviva, Green Circle, Pinnacle, Rentech, Plum Creek

Ports and shipping

**Agreements in place for expansion of UK port capability**
- Tyne – existing 2Mtpa capacity
- Hull – building 1Mtpa capacity
- Immingham – 3Mtpa capacity under construction
- Further capacity under negotiation

New biomass rail wagons

**First 50 well advanced**
- Fully operational Q1 2014
- Efficient load / unload with full weather protection
- Carry up to 50% more than current trains
US Gulf Pellet Operations

Construction contracts concluded

2 pellet plants – combined capacity 900kt pa
• Amite (Mississippi) and Morehouse (Louisiana)

Port facility – export capacity up to 3Mt pa
• Baton Rouge (Louisiana)

Lead contractors: Haskell (pellet plants) and Gray (port)

Total capex c.£225m
Summer 2013 construction start

Targeting commercial operations:
• Amite, Baton Rouge – Q1 2015
• Morehouse – Q2 2015
• 6 months further to reach full capacity
Transition to Permanent Biomass Facilities

Transition of 1st converted unit

Q4 2013 phased commissioning of new on-site facilities

- Fuel delivery and distribution
- Storage – 1 dome in service
- Unit modifications

On schedule to be complete by year end

2014 – schedule

End Q1 first 50 bespoke wagons in service

Storage:

- Q1 – 2 domes in service
- Q3 – all 4 domes in service

Summer 2014 conversion of 2nd unit

Optimisation work continuing

- Efficiency management, fuel envelope, NOx

Timeline for First Unit Transition

- September 2013
- Start Commissioning
- Fully Operational

- Fuel Distribution
- Rail Delivery
- Hull Port Facility
- 50 Rail Wagons
- First Dome
- Mill Conversions
- Fuel Distribution
- Hull Port Facility
- Rail Delivery
- First Dome

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Low Cost Options for the Future

4th unit conversion
- Engineering design underway
- Design focus – fuel optionality across converted units
- Fuel strategy based on sources outside North America

Carbon capture and storage (CCS) – Demonstration
- New 426MW oxy-fired plant
- One of two lead projects in UK competition
- Sole CCS project in EU NER 300 competition
- Negotiations underway for start of 2-year feasibility study

Further pellet plant and port facilities
- Site options under development
- USA: Gulf expansion and South East
- Latin America: exploring longer term options

Capacity options
- UK Capacity Market could create value opportunity
- Evaluating options to benefit from core Drax competencies
Conclusion

Transformation Milestones

| Biomass Sourcing | Sustainable Fuel Secured | 2Mt for 2013/14 ROC year\(^{(1)}\) | ✔ On Track |
| US Investments   | Pellet Plants & Port     | COD\(^{(2)}\) Amite pellet plant and Baton Rouge port Q1 2015 | Schedule Finalised |
|                  |                            | COD Morehouse pellet plant Q2 2015 | |
|                  |                            | Full capacity 6 months after COD | |

| UK Infrastructure | Port Throughput            | 2Mtpa for 2013/14 ROC year | ✔ On Track |
|                  |                              | 4Mtpa for 2014/15 ROC year | |
|                  |                              | 6Mtpa for 2015/16 ROC year | |

| 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 | |

|                  | IED                          | Define IED solution by end 2013 | |

H1 2013 profits in line with expectations – **Increasing cost of carbon**

Biomass transformation – **On track with converted unit performing to plan**

Capital Markets Day – **Drax: 17 October 2013**

\(^{(1)}\) ROC year = 1 April to 31 March

\(^{(2)}\) COD = commercial operations date
Questions
Appendices

1. Definitions
2. Financial Calendar
3. IAS39 Treatment
4. Power Market
5. Gas Market
6. Coal Market
7. Carbon Market
8. Carbon Tax
9. Forward Spread Movements
10. Commodity Price Movements
11. Ofgem Capacity Assessment
12. LCPD
13. Biomass Fuels
14. ROC Banding Review Conclusions
15. ROC Mechanics
16. Drax Site Development Schematic
## 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 (“FOB”) 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>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.</td>
</tr>
<tr>
<td>CESP</td>
<td>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.</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>Profit before interest, tax, depreciation, amortisation and unrealised gains/(losses) on derivative contracts.</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>
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<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>

Drax Group plc
### Appendix 1: Definitions (cont.)

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>LNG</td>
<td>LIQUIFIED NATURAL GAS</td>
</tr>
<tr>
<td>LTIR</td>
<td>LOST TIME INJURY RATE</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td>One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NOx, SO2 and particulate which will be incorporated into the forthcoming PPC permit.</td>
</tr>
<tr>
<td>NOx</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</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td>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</td>
</tr>
<tr>
<td></td>
<td>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>SO2</td>
<td>Sulphur dioxide, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>TRIR</td>
<td>TOTAL RECORDABLE INJURY RATE</td>
</tr>
<tr>
<td></td>
<td>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 CONTINENTAL SHELF</td>
</tr>
<tr>
<td></td>
<td>Gas reserves found off shore in UK waters.</td>
</tr>
<tr>
<td>UK NAP</td>
<td>UK NATIONAL ALLOCATION PLAN</td>
</tr>
<tr>
<td></td>
<td>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>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Markets Day</td>
<td>17 October</td>
</tr>
<tr>
<td>Interim Management Statement</td>
<td>Mid-November</td>
</tr>
<tr>
<td>Financial Year End</td>
<td>31 December</td>
</tr>
</tbody>
</table>
## Appendix 3: IAS 39 Treatment

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Location of Gains and Losses in the 2013 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>Carbon</td>
<td>Hedge Reserve</td>
</tr>
</tbody>
</table>
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
- Load factors have increased for opted in coal plant
- Oil-fired plant closing prior to full utilisation of running hours

Sources: Brokered Data, Drax assumptions, and based on market prices on 5 July 2013

(1) DGS = dark green spread, GSS = green spark spread
(2) DGS / GSS includes carbon price support
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
  - LNG import uncertainty

Extended winter across Europe – gas storage heavily depleted
- Rough storage (UK) record low in April
  - Expect high summer demand to replenish storage reserves
  - Rough injecting at record highs

UK 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

NBP, Henry Hub and EBP™ Index Forward Curves
January 2013
July 2013

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 6: Coal Market

Continued supply driven weakness in global prompt market
• Prompt API2 prices c.$75/t
• UK domestic coal producers under pressure

Chinese seaborne imports up 8% in H1 2013
• Imports up 41% in 2012
• Stock levels remain high
• Strong hydro production reduced thermal requirement

US exports to EU up 67% in 2012
• Low demand – producers look to export market
• Q1 2013 exports +21%
• Low demand / low prices – production cuts

Steam coal exports up in 2012
• Australia +16%
• South Africa +9%
• Indonesia +7%
• Colombia +4%
Appendix 7: Carbon Market

Phase III EUAs – new lows in 2013

Driven by Phase II over-supply and weak European economies
- Phase II surplus bankable into Phase III (2013 to 2020)

Backloading debate on-going
- Plans to temporarily remove allowances passed by the European Parliament
- Requires European Council approval

Introduction of UK carbon tax
Appendix 8: Carbon Tax

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 £23/tonne coal
• For 2015 this is £18/tonne CO₂; equivalent to £43/tonne coal
Appendix 9: Forward Spread Movements

Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread - 49%
Appendix 10: Commodity Price Movements

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
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
## Appendix 12: LCPD

<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 – May 2013)</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>
</tr>
<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></td>
</tr>
<tr>
<td>Ratcliffe</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>2000</td>
<td>2000</td>
<td>0</td>
<td>2000</td>
<td>0</td>
<td></td>
</tr>
<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>54%</td>
</tr>
<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>
</tr>
<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 12%</td>
</tr>
<tr>
<td>Fiddlers Ferry</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>1961</td>
<td>1961</td>
<td>0</td>
<td>1961</td>
<td>0</td>
<td></td>
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<td>Longannet</td>
<td>Scottish Power</td>
<td>Coal</td>
<td>2304</td>
<td>2304</td>
<td>2304</td>
<td>0</td>
<td>0</td>
<td></td>
</tr>
<tr>
<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>Closed</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>
</tr>
<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>Closed</td>
</tr>
<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 6% BOIL 9&amp;10 5%</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>Closed</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>Closed</td>
</tr>
<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 May 2013  
* RWE previously proposed conversion of Tilbury to 100% biomass, but plant may now close
# Appendix 13: Biomass Fuels

<table>
<thead>
<tr>
<th>Forestry Residuals</th>
<th>Agricultural By-products</th>
<th>Energy Crops</th>
</tr>
</thead>
<tbody>
<tr>
<td>Forestry thinnings</td>
<td>Wheat/Oat straw</td>
<td>Miscanthus &amp; switchgrass</td>
</tr>
<tr>
<td>Harvesting residues</td>
<td>Sunflower husks</td>
<td>Bamboo</td>
</tr>
<tr>
<td>Chips/Sawdust</td>
<td>Sugarcane bagasse</td>
<td>Jatropha</td>
</tr>
<tr>
<td>Bark</td>
<td>Rice straw</td>
<td>Short Rotation Coppice (e.g. Willow)</td>
</tr>
<tr>
<td>Wood pellets</td>
<td>Olive pulp</td>
<td>Short Rotation Forestry (e.g. Eucalyptus)</td>
</tr>
</tbody>
</table>
## Appendix 14: ROC Banding Conclusions

<table>
<thead>
<tr>
<th>Technologies</th>
<th>Level of ROCs / MWh</th>
<th>Previous Support</th>
<th>DECC Decisions – July 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Offshore wind</td>
<td>2.0</td>
<td></td>
<td>2.0 – 1.8</td>
</tr>
<tr>
<td>Onshore wind</td>
<td>1.0</td>
<td></td>
<td>0.9</td>
</tr>
<tr>
<td>Standard co-firing (&lt; 50%)</td>
<td>0.5</td>
<td></td>
<td>0.3 – 0.5</td>
</tr>
<tr>
<td>Enhanced co-firing (51% - 84%)</td>
<td>0.5</td>
<td></td>
<td>0.6</td>
</tr>
<tr>
<td>Enhanced co-firing (85% - 99%)</td>
<td>0.5</td>
<td></td>
<td>0.7 (2013 – 2014)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>0.9 (2014+)</td>
</tr>
<tr>
<td>Conversion (^{(1)})</td>
<td>0.5</td>
<td></td>
<td>1.0</td>
</tr>
<tr>
<td>Dedicated biomass</td>
<td>1.5</td>
<td></td>
<td>1.5 (2014+)</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Excluding allowance of up to 10% additives
Appendix 15: ROC Mechanics

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
• Drax exploring options to accelerate ROC cash flows
Appendix 16: Drax Site Schematic

Rail Unloading and Storage

Fuel Distribution

Combustion
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Half Year Results

6 Months Ended 30 June 2013

30 July 2013