Agenda

2013 Business Review
Biomass and Regulation
Dorothy Thompson
Chief Executive

2013 Financial Review
Tony Quinlan
Finance Director

Conclusion
Dorothy Thompson
Overview
Dorothy Thompson – Chief Executive

2013 performance
Underlying profits ahead of expectations
Increasing cost of carbon
Good operations

EBITDA
£230m

Underlying Earnings Per Share
35.3p

2014 outlook
Markets weaker with mild winter
Modify unit to enhanced co-firing

Biomass transformation
Unit performance surpassing expectations
CfD to underpin future unit conversions

Total Dividends
17.6p/share (£71m)
Business Review – Operational Performance

Safety

Maintaining good safety performance
• > 50% increase in hours worked to 5.9m hours

Coal operations

84% availability (2012: 86%)
• 6.8% forced outage rate (2012: 4.8%)
  - Impact of H1 ash bridge
• Long-term FOR target 5%
• 10.0% planned outage rate (2012: 9.6%)

80% load factor (2012: 82%)

Fuel Mix

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>Mix%(1)</th>
<th>2012</th>
<th>Mix%(1)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Tonnes</td>
<td></td>
<td>Tonnes</td>
<td></td>
</tr>
<tr>
<td>Coal</td>
<td>8.5Mt</td>
<td>85%</td>
<td>9.6Mt</td>
<td>90%</td>
</tr>
<tr>
<td>Advantaged Fuels</td>
<td>0.8Mt</td>
<td>3%</td>
<td>0.8Mt</td>
<td>5%</td>
</tr>
<tr>
<td>Biomass</td>
<td>1.6Mt</td>
<td>12%</td>
<td>0.2Mt</td>
<td>2%</td>
</tr>
<tr>
<td>Biomass R&amp;D</td>
<td>-</td>
<td>-</td>
<td>0.5Mt</td>
<td>3%</td>
</tr>
</tbody>
</table>

(1) By heat

TRIR = Total Recordable Injury Rate, LTIR = Lost Time Injury Rate
First converted unit performing very well

Unit initially fuelled using existing co-firing plant
- Temporary fuel delivery systems

Progressive commissioning of new on-site facilities from October
- Fully operational from December

2013 data based on 585MW capacity
- By end of 2013 achieving capacities of > 600MW
- Outage rates overstate performance at 585MW
  - Forced outage rate 6.8% (H1: 13.1%)
  - Planned outage rate 5.4% (H1: 12.9%)
  - 88% availability (H1 2013: 76%)
  - 75% load factor (H1: 57%)
- Logistics constrained commercial dispatch
- New facilities commissioned over Q4

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

On track for 12 - 15 TWh by 2015
- Sales growth and credit quality remain business priority
- I&C and SME markets

Substantial sales growth 2013
- Retail sales £751m (2012: £451m)
- 10.6 TWh contracted for 2014 at start of year
- Credit quality remains good with low bad debt experience

New customer management and billing system now fully deployed
- All customers transferred to new platform
- Last 24,000 metering points migrated in 2013

Growing a strong service reputation
- Consistent high performer in Datamonitor Major Energy Users survey
- Good renewals record

1) I&C = Industrial and Commercial, SME = Small and Medium Enterprises
2) NBP = Notional Balancing Point
Near-term market developments

Mild winter across Europe
- Weak gas market, high gas storage
- Weak power markets

Abnormally high wind generation
- Weaker ROC prices

Trading strategy

Coal hedging
- Sales near / medium-term
- Fix dark green spread on sale of power

Biomass hedging
- Priority on securing long-term fuel at fixed costs
- Designed for ROC market unit

Future strategy with CfDs
- New strategy to reflect CfD hedge features

Business Review – Markets and Trading

Power and ROC Prices

Power Sales Contracted as at 10 February 2014

<table>
<thead>
<tr>
<th>Year</th>
<th>Power Sales – TWh</th>
<th>Comprising:</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>22.1</td>
<td>Fixed Price TWh @ 19.7 @ 52.9</td>
</tr>
<tr>
<td>2015</td>
<td>7.2</td>
<td>at Average Achieved Price £ per MWh 55.5</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fixed Margin and Structured Contracts TWh 2.4</td>
</tr>
</tbody>
</table>

Source: ICE / EROC
Contracts for Difference (CfD)

CfD structure
- Designed to deliver price certainty
- Private law contract
- Newly established company for counterparty
  - Payments under CfD funded through a levy on electricity suppliers

Early CfDs - Investment Contracts
- Drax’s next 2 unit conversion projects ranked equal first in assessment for award
  - Important underpinning for supply chain investment
- Fixed end date of 2027 for converted units
- Strike price £105 (2012 prices, CPI inflation)
  - Season ahead reference price – daily average
  - Protection from longer term increases in system balancing costs
- Timetable
  - March 2014 award of Early CfDs
  - April 2015 first payments available
- Subject to EU State Aid clearance

CfD Mechanism Illustration

(1) 2012 prices, CPI inflation
Biomass – Schedule for Increasing Generation

2014 – focus on optimising biomass unit performance
• Improve operations of 1st converted unit earning 1ROC/MWh
• Modify unit in April for increased biomass burn
• Unit to operate from May as ECF\(^{(1)}\) unit, burning >85% biomass, earning 0.9ROC/MWh
• Additional R&D on biomass fuel and NOx performance

2015 – conversion of 2 units underpinned by Early CfD Investment Contracts
• Targeting ECF unit conversion for April 2015
• Targeting 3rd unit earliest conversion for Q4 2015
  – Load factor will depend on biomass supply chain development

2016 – 3 unit transformation complete
• 3 converted units fuelled with sustainable biomass
• Potential for conversion of 4th unit under enduring CfD
  – Engineering and biomass sourcing strategies well advanced
  – Load factor will depend on biomass supply chain development

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(1) ECF = Enhanced Co-firing
(2) 2012 prices, CPI inflation
Biomass – Unit Optimisation

Good progress with optimisation

Identified significant biomass unit improvements
- Benefit of further testing on 1st unit conversion
- Invest £90m over 3 years (3 units)
  - Attractive returns
- Efficiency c.0.5% lower than coal
- Delivers 630MW unit capacity with standard fuels
  - Up to 645MW with high calorific value fuels

Some limits to benefits in early years
- Need 0.25Mt pa more biomass per unit
- Additional biomass as well as port and rail capacity required
  - Underpinned by Early CfDs
  - Likely to be available from 2016

Availability matching coal from 2016
- 2014/15 expect around 80% “effective” availability
Biomass – Fuel Supply

Near-term volumes

Good progress
- > 4Mt for 2014/15 ROC year

Long-term volumes

Negotiations progressing for 2\textsuperscript{nd} and 3\textsuperscript{rd} unit conversions
- Underpinned by Early CfDs
- Expect high proportion from North America
- Potential for some increase in European volumes and early South American supplies
- Evaluating increase in own pellet production
Biomass – US Pellet Operations

Projects in execution – on schedule and budget

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

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

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

Projects under evaluation

Developing options for up to 2Mt pa additional own pellet production
• Attractive returns and good quality fuel
• Optimise supply chain
  – Accelerate delivery of reliable fuel supplies
  – Efficient and cost-effective logistics

Investment underpinned by Early CfDs
• Focus on North America
  – 250 – 500kt pa pellet plants
  – Strategic port investments
• Exploring UK options
  – Straw and energy crop pellet plants

Dome Storage at Baton Rouge – Jan 2014
Biomass – Logistics

Freight

First long-term freight contracts concluded
• Own pellet production plus some 3rd party volumes
• Up to 20% of total freight exposure based on 3 unit fuel requirement
• Fixed price freight (including oil hedge)

UK ports

Developments on schedule for expansion of port capability
• Tyne – existing 2Mt pa capacity
• Hull – new 1Mt pa capacity fully operational in March
• Immingham – new 3Mt pa capacity fully operational by year end

Further UK capacity under negotiation
• Underpinned by Early CfDs

On-site storage and rail wagons

Domes in service: March – 2 domes, Q3 – all 4
• Temporary off-site storage remains in place for 2014

Operational wagons: Q2 – 100 wagons, year end – 170

Timeline for 2014

<table>
<thead>
<tr>
<th>2014</th>
<th>Facilities Fully Operational</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q1</td>
<td>2 Domes Hull Port Total storage c.150kt</td>
</tr>
<tr>
<td>Q2</td>
<td>100 Rail Wagons Total capacity c.4Mt pa</td>
</tr>
<tr>
<td>Q3</td>
<td>4 Domes Total storage c.300kt</td>
</tr>
<tr>
<td>Q4</td>
<td>170 Rail Wagons Immingham Port Total capacity c.6Mt pa</td>
</tr>
</tbody>
</table>
Biomass Sustainability

All Drax biomass procured against robust industry-leading sustainability policy

Fully compliant in 2013
- All biomass carbon foot printed
  - Average GHG(1) emissions significantly below maximum UK limit (mandatory from 2015)
- Supplier audits – no material adverse findings

DECC working towards mandatory standards from 2015

Key principles proposed by DECC
- Full lifecycle carbon foot printing
- Regular assessments of fibre source
- Timber standard based on sustainable forestry management principles
- Annual compliance audit

(1) GHG = Greenhouse gas
IED and CCS

**Industrial Emissions Directive (IED)**

*Lead case investment: £75m - £100m (over 4 years)*
- Low NOx burners – all units
- Selective Non-catalytic Reduction (SNCR)
- Selective coal procurement

*First unit trial in 2014*
- Low NOx burners and SNCR

*SCR option retained*

**Carbon Capture and Storage (CCS)**

*New 426MW (gross) oxy-fired demonstration plant*
- Drax, Alstom, BOC and National Grid
- Net capacity c.300MW – project cost c.£2bn
- 2 year feasibility study underway – total cost to Drax £4m
  - Engineering study
  - Commercial arrangements
  - Financing – including government support (CfD) and external funding
- Pipeline sized with 15Mt pa spare capacity
  - Future strategic option for Drax
- Progression dependent on appropriate return to reflect technical and commercial risks
Regulation – Electricity Market Reform

Enduring CfDs
• Award process under design
• DECC targeting Q4 2014 for first applications
• Affordability management necessary

Capacity mechanism
• Market design not yet finalised
• DECC targeting Q4 2014 for first auctions (2018 delivery)
• RO-accredited and CfD plant not eligible
• Drax participation uncertain
• Current proposals - risk/reward balance unattractive
  – Applies to coal units and new build gas
  – Could change with final market design

Carbon price support
• Uncertainty over trajectory
2013 Financial Review
Tony Quinlan – Finance Director

EBITDA
£230m

Underlying Earnings Per Share\(^{(1)}\)
35.3p

Net Cash\(^{(2)}\)
£71m

Total Dividends
17.6p (£71m)
Final Dividend 8.9p (£36m)

- 2014 outlook – markets weaker, mild winter
- Biomass transformation:
  - Capex on schedule and budget
  - Drax value potential transforming

1) Excl. unrealised losses on derivative contracts of £110m (less tax effect)
2) Cash of £287m less borrowings of £216m

Drax Group plc
## Income Statement – Summary

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>2013</th>
<th>2012</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,062</td>
<td>1,780</td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(1,617)</td>
<td>(1,269)</td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td>445</td>
<td>511</td>
<td></td>
</tr>
<tr>
<td>Operating Costs</td>
<td>(215)</td>
<td>(213)</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>230</td>
<td>298</td>
<td>-23%</td>
</tr>
<tr>
<td>IAS39 Unrealised Losses on Derivative Contracts</td>
<td>(110)</td>
<td>(36)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(65)</td>
<td>(59)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>55</td>
<td>203</td>
<td></td>
</tr>
<tr>
<td>Net Finance Costs</td>
<td>(23)</td>
<td>(13)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit Before Tax</strong></td>
<td>32</td>
<td>190</td>
<td></td>
</tr>
<tr>
<td>Tax Credit / (Charge)</td>
<td>20</td>
<td>(26)</td>
<td></td>
</tr>
<tr>
<td>Reported Earnings</td>
<td>52</td>
<td>164</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Earnings</strong></td>
<td>142</td>
<td>193</td>
<td>-26%</td>
</tr>
<tr>
<td>Reported Basic Earnings Per Share (pence)</td>
<td>13</td>
<td>44</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Basic Earnings Per Share (pence)</strong></td>
<td>35.3</td>
<td>51.9</td>
<td>-32%</td>
</tr>
<tr>
<td>Total Dividend Per Share (pence)</td>
<td>17.6</td>
<td>25.3</td>
<td></td>
</tr>
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</table>
## Income Statement – Revenue

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Revenue</strong></td>
<td>2,062</td>
<td>1,780</td>
</tr>
<tr>
<td><strong>Wholesale Power Sales</strong></td>
<td>1,234</td>
<td>1,252</td>
</tr>
<tr>
<td><strong>Retail Power Sales</strong></td>
<td>751</td>
<td>451</td>
</tr>
<tr>
<td><strong>ROC and LEC Sales(^{(1)})</strong></td>
<td>29</td>
<td>37</td>
</tr>
<tr>
<td><strong>Fuel Sales Revenue</strong></td>
<td>28</td>
<td>17</td>
</tr>
<tr>
<td><strong>Ancillary Services and Other Income</strong></td>
<td>20</td>
<td>23</td>
</tr>
<tr>
<td><strong>Electrical Output (Net Sales) (TWh)</strong></td>
<td>26.2</td>
<td>27.1</td>
</tr>
<tr>
<td><strong>Average Achieved Price (£ per MWh)</strong></td>
<td>51.0</td>
<td>51.3</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Net of intercompany eliminations of £34m (2012: £26m)

![Power Prices Graph](Image)

Sources: Brokered Trades, Spectron
## Income Statement – Cost of Sales

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Cost of Sales</strong></td>
<td>1,617</td>
<td>1,269</td>
</tr>
<tr>
<td>Fuel Costs(^{(1)})</td>
<td>698</td>
<td>789</td>
</tr>
<tr>
<td>Carbon Tax</td>
<td>62</td>
<td>-</td>
</tr>
<tr>
<td>Cost of Carbon Allowances</td>
<td>124</td>
<td>83</td>
</tr>
<tr>
<td>Cost of ROCs and LECs Sold</td>
<td>62</td>
<td>57</td>
</tr>
<tr>
<td>Cost of Power Purchases</td>
<td>352</td>
<td>142</td>
</tr>
<tr>
<td>Grid Charges and Other Retail Cost of Sales</td>
<td>319</td>
<td>198</td>
</tr>
<tr>
<td><strong>Average Fuel Cost (excl. CO(_2) costs)(^{(2)})</strong></td>
<td>£27.9/MWh</td>
<td>£30.6/MWh</td>
</tr>
<tr>
<td><strong>Number of Purchased CO(_2) Allowances Expensed</strong></td>
<td>20.3m</td>
<td>13.1m</td>
</tr>
<tr>
<td><strong>Average Cost of Purchased CO(_2) Allowances</strong></td>
<td>£6.1/tonne</td>
<td>£6.3/tonne</td>
</tr>
</tbody>
</table>

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\(^{(1)}\) Includes cost of fuel sold of £28m (2012: £20m)

\(^{(2)}\) Includes carbon tax (charged on coal deliveries and recognised as fuel cost on burn) and excludes cost of fuel sold
Operating Costs

Operating costs – £215m in 2013

2013 total operating cost increase £2m, in line with guidance
- Double outage year
- Investment in growth plus underlying cost inflation +£7m (4%)
- End of CESP(1) -£5m

2014 operating cost guidance: £220m
- Investment in growth (US business, CCS): +£11m
- Underlying cost inflation: +£7m (3%)
- Single outage year: -£13m

(1) CESP = Community Energy Saving Programme
Capital Expenditure

Transformation capex on schedule and budget

Transformation capex
- 3 unit conversions, IED, US pellet investments
- Guidance unchanged at £650m - £700m

2013 total capex £290m

2014 total capex guidance c.£200m

Capex outlook
- Transformation: £160m - £185m (2014-15)
- IED: £75m - £100m (2014-17)
- Biomass unit optimisation: £90m (2014-16)

Evaluating further investments in:
- Supply chain
- Fourth unit conversion

Transformation Capex

<table>
<thead>
<tr>
<th>3 Unit Conversions, IED, US Pellet Investments</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incurred to End of 2012</td>
<td>185</td>
</tr>
<tr>
<td>2013</td>
<td>230</td>
</tr>
<tr>
<td>Estimate to Complete</td>
<td>235 - 285</td>
</tr>
<tr>
<td>Total Capex</td>
<td>650 - 700</td>
</tr>
</tbody>
</table>

Total Capex Outlook
**Cash Flow**

### 2013 Cash Flow

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Cash</td>
<td>£250</td>
</tr>
<tr>
<td>EBITDA</td>
<td>£350</td>
</tr>
<tr>
<td>Working Capital / Other</td>
<td>£64m</td>
</tr>
<tr>
<td>ROCs / LECs</td>
<td>(£121m)</td>
</tr>
<tr>
<td>Tax</td>
<td>(£11m)</td>
</tr>
<tr>
<td>Capex</td>
<td>(£302m)</td>
</tr>
<tr>
<td>GIB / IUK Term Loans</td>
<td></td>
</tr>
<tr>
<td>Debt Service</td>
<td></td>
</tr>
<tr>
<td>Dividends</td>
<td>(£79m)</td>
</tr>
<tr>
<td>Closing Cash</td>
<td>£287m</td>
</tr>
</tbody>
</table>

**Working Capital / Other**
- Biomass stocks inflow £7m
  - Stocks of 0.3Mt
- Coal stocks outflow (£49m)
  - 0.6Mt increase to 2.2Mt
- Other net inflow £106m
  - Increase in creditors
    - (carbon tax, Haven accruals)

**ROCs / LECs**
- Increase in ROCs / LECs

**Tax**
- Payments in respect of 2012/13
  - £18m
- Net of repayment in respect of R&D
  - £7m

**Capex**
- Cash payments for capex

**Dividends**
- Final 2012 dividend of 10.9p/share
- Interim 2013 dividend of 8.7p/share

**Closing Cash**
- Net cash after borrowings £71m
Debt facilities

Term loans
- £100m M&G term loan (6-8 year maturity)
- £50m UK Green Investment Bank term loan (6-8 year maturity)
- £75m Friends Life term loan (4-5 year maturity)
  - Underpinned by guarantee from Infrastructure UK

Other facilities
- £400m working capital and LC(1) facility
  - Matures April 2016
- Commodity trading line – capacity extended

Credit rating BB+
- Robust sub-investment grade business model

Cash flow management

New £80m ROC monetisation facility
- Sale of ROC receivables – accelerates cash flows

(1) LC = Letter of Credit
Looking Ahead – Biomass Investment Opportunities

**Biomass unit optimisation**
- Higher unit output, efficiency – delivers strong returns

**Fourth unit conversion**
- Potential for significant value creation
- Timing driven by regulatory support levels, biomass availability and supply chain development

**Pellet plants**
- North America – double-digit % post-tax project returns
  - Own investments – will enhance future earnings; and/or
  - Build, bring in 3rd party equity, recycle capital
- UK – potential to deliver some of the most cost-effective fuel (e.g. straw)

**Overseas ports**
- Control supply chain
- Significant value potential – consolidation of supplies, sharing storage, port facilities and large ships
Looking Ahead – Capital Structure and Distributions

Capital structure
- Maintain efficient balance sheet discipline
- Credit rating, commodity trading capability
- Retain capacity for investment in value enhancing opportunities

Distributions
- Potential for substantial improvement in EBITDA
  - 2015 – greater dependence on spreads
  - 2016 – CfDs increase certainty
- Commitment to drive total shareholder return
  - Balancing healthy dividend with investment in projects delivering attractive returns

Timing
- Confirmation of CfDs for 2\textsuperscript{nd} and 3\textsuperscript{rd} unit conversions likely H1 2014
  - Key driver of timing for decisions on capital structure and distribution policy
## Financial Review – Key Takeaways

### Changes to key assumptions

<table>
<thead>
<tr>
<th>Biomass Unit Technical Performance</th>
<th>Previous Assumption</th>
<th>Current Assumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output 600MW</td>
<td>1.3% lower than coal</td>
<td>Efficiency 0.5% lower than coal from 2014</td>
</tr>
<tr>
<td>Availability – 80% and rising</td>
<td></td>
<td>Availability 80% in 2014/15 and 85% - 90% from 2016</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Increased Biomass Generation Capacity</th>
<th>2\textsuperscript{nd} unit conversion – Q2 2014</th>
<th>Unit ECF(^{(1)}) modification – May 2014 to Mar 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3\textsuperscript{rd} unit conversion – mid-2016</td>
<td>2\textsuperscript{nd} unit conversion – April 2015</td>
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<td></td>
<td>3\textsuperscript{rd} unit conversion – earliest Q4 2015(^{(2)})</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Support Mechanism</th>
<th>2\textsuperscript{nd} unit conversion – 1 ROC</th>
<th>ECF unit – 0.9 ROCs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3\textsuperscript{rd} unit conversion – 1 ROC</td>
<td>2\textsuperscript{nd} unit conversion (2015) – Early CfD</td>
</tr>
<tr>
<td></td>
<td></td>
<td>3\textsuperscript{rd} unit conversion – Early CfD</td>
</tr>
</tbody>
</table>

| Capex for Biomass Unit Optimisation  | n/a                                             | £90m over 3 years (3 units) |

<table>
<thead>
<tr>
<th>Other 2014 Financial Guidance</th>
<th>n/a</th>
<th>Depreciation: £80m - £85m</th>
</tr>
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<tbody>
<tr>
<td></td>
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<td>Net interest: c.£25m</td>
</tr>
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<td></td>
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<td>Effective tax rate: close to corporation tax rate</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Total Capex: c.£200m</td>
</tr>
</tbody>
</table>

\(^{(1)}\) ECF = Enhanced Co-firing  
\(^{(2)}\) Load factor dependent on biomass supply chain development
Summary

2013 performance
• Good operations and healthy spreads
• Good progress commissioning new biomass facilities
• Increasing cost of carbon

2014 outlook
• Markets weaker with mild winter
• Modify a coal unit to enhanced co-firing

Biomass transformation
• Capex on schedule and budget
• Expect two units to be converted in 2015 under CfDs
• Incremental investment to optimise biomass units
• Evaluating further supply chain investments and 4th unit conversion

Capital structure and distribution policy
• Determine optimal solution as business evolves
• To deliver efficient balance sheet, healthy dividend and capacity to invest in value enhancing projects
Drax Transformed – the Group in 2016

Power generation: reliable and flexible

Biomass generation
• 3 units fuelled by biomass: 1 RO / 2 Early CfD
• Capacity at least 630MW, efficiency 0.5% lower than coal
• 4th unit conversion plans well advanced

Coal generation
• 3 units - plant compliant with IED
• Potential to benefit from tightening UK capacity margin

Sustainable biomass fuel supply

Fuel secured through contract and self supply for 8Mt
• Own pellet production of c.1Mt pa
  – Plans progressed to increase to 2-3Mt pa

UK logistics secure for 8Mt

Retailing renewable power

Well established supplier to UK businesses
• Direct sales for 50% of output
• Compelling proposition of good service, transparent pricing and renewable power

Predominantly renewable power provider
Questions
Appendices

1. Definitions
2. Tax Reconciliation
3. Fuel and ROC Reporting
4. Financial Calendar
5. IAS 39 Treatment
6. Power Market
7. Gas Market
8. Coal Market
9. Carbon Market
10. Forward Spread Movements
11. Commodity Price Movements
12. LCPD and IED
13. Carbon Price Floor
14. ROC Banding and CfD Strike Prices
15. Drax Site Development Schematic

Dome Storage – January 2014
### Appendix 1: Definitions

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</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>BALANCING MECHANISM</td>
</tr>
<tr>
<td>CESP</td>
<td>COMMUNITY ENERGY SAVING PROGRAMME</td>
</tr>
<tr>
<td>DECC</td>
<td>DEPARTMENT FOR ENERGY AND CLIMATE CHANGE</td>
</tr>
<tr>
<td>DIRECT INJECTION</td>
<td>A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.</td>
</tr>
<tr>
<td>EBITDA</td>
<td>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>
</tr>
<tr>
<td>IUK</td>
<td>INTERCONNECTOR UK</td>
</tr>
<tr>
<td>LCPD</td>
<td>LARGE COMBUSTION PLANT DIRECTIVE</td>
</tr>
<tr>
<td>LEC</td>
<td>LEVY EXEMPTION CERTIFICATE</td>
</tr>
</tbody>
</table>
### Appendix 1: Definitions (cont.)

<table>
<thead>
<tr>
<th>Acronym</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 &lt;br&gt;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 &lt;br&gt;One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO\textsubscript{X}, SO\textsubscript{2} and particulate which will be incorporated into the forthcoming PPC permit.</td>
</tr>
<tr>
<td>NO\textsubscript{x}</td>
<td>Nitrogen oxides, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>OFGEM</td>
<td>OFFICE FOR GAS AND ELECTRICITY MARKETS</td>
</tr>
<tr>
<td>OPTED-IN / OPTED-OUT</td>
<td>An opted-in plant is a power station that has elected to comply with the LCPD emissions standards. Opted-out plant has not elected to comply and is therefore only permitted to run for 20,000 hours and must in any event close by the end of 2015.</td>
</tr>
<tr>
<td>ADVANTAGED FUELS</td>
<td>Fuel that gives a price advantage against standard bituminous coals. Such fuels include, off specification coals and petcoke.</td>
</tr>
<tr>
<td>RO</td>
<td>RENEWABLES OBLIGATION &lt;br&gt;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 &lt;br&gt;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>SNCR</td>
<td>SELECTIVE NON CATALYTIC REDUCTION</td>
</tr>
<tr>
<td>SO\textsubscript{2}</td>
<td>Sulphur dioxide, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>TRIR</td>
<td>TOTAL RECORDABLE INJURY RATE &lt;br&gt;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 &lt;br&gt;Gas reserves found off shore in UK waters.</td>
</tr>
<tr>
<td>UK NAP</td>
<td>UK NATIONAL ALLOCATION PLAN &lt;br&gt;Allocation of UK emissions allowances at the national level to individual sites under EU ETS.</td>
</tr>
</tbody>
</table>
Appendix 2: Tax Reconciliation

Low tax rate driven by impact of reduction in corporation tax (CT) rate

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
• 2012: 2% reduction in CT rate
• 2013: 3% reduction in CT rate

Underlying tax rates exclude deferred tax on unrealised losses on derivative contracts
• 2012: £7m tax credit
• 2013: £19m tax credit

2014 tax rate guidance
• Close to CT rate (21.5%)

<table>
<thead>
<tr>
<th>Tax Reconciliation</th>
<th>2013</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>In £m (unless otherwise stated)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>32</td>
<td>190</td>
</tr>
<tr>
<td>Tax at CT Rate</td>
<td>7</td>
<td>47</td>
</tr>
<tr>
<td>Adjustment to Prior Year Taxes</td>
<td>(7)</td>
<td>(8)</td>
</tr>
<tr>
<td>Impact of Reduction in CT rate on Deferred Tax</td>
<td>(22)</td>
<td>(15)</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Tax (Credit) / Charge</td>
<td>(20)</td>
<td>26</td>
</tr>
<tr>
<td>Effective Tax Rate – on Underlying Profit Before Tax</td>
<td>0%</td>
<td>15%</td>
</tr>
</tbody>
</table>
Appendix 3: Fuel and ROC Reporting

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

**Income statement – cost of fuel**
- 2013 £732m (£27.9/MWh), comprising:
  - Cost of coal, carbon tax and biomass
  - Less estimate ROC / LEC value generated

**Balance sheet - ROC / LEC assets**
- £140m at 31 December 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

**2013 Income Statement – Fuel Costs**

<table>
<thead>
<tr>
<th>Net Fuel Cost Comprises:</th>
<th>£m</th>
<th>£/MWh</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal, Carbon Tax and Biomass</td>
<td>876</td>
<td>33.4</td>
</tr>
<tr>
<td>ROC / LEC Value Generated</td>
<td>(144)</td>
<td>(49.6)</td>
</tr>
</tbody>
</table>

**2013 Balance Sheet – ROC and LEC Assets**

<table>
<thead>
<tr>
<th>ROC and LEC Assets</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>144</td>
</tr>
<tr>
<td>Purchased</td>
<td>38</td>
</tr>
<tr>
<td>Sold or Utilised</td>
<td>(61)</td>
</tr>
<tr>
<td>At 31 December 2013</td>
<td>140</td>
</tr>
</tbody>
</table>
## Appendix 4: Financial Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual General Meeting</td>
<td>23 April</td>
</tr>
<tr>
<td>Ordinary shares marked ex-dividend</td>
<td>23 April</td>
</tr>
<tr>
<td>Record date for final dividend</td>
<td>25 April</td>
</tr>
<tr>
<td>Final dividend payment date</td>
<td>16 May</td>
</tr>
<tr>
<td>Interim Management Statement</td>
<td>Mid May</td>
</tr>
<tr>
<td>Financial half year end</td>
<td>30 June</td>
</tr>
<tr>
<td>Announcement of Half Year Results</td>
<td>29 July</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 5: IAS 39 Treatment

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Location of Gains and Losses in the 2013 Annual 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 6: Power Market

UK power market

Power prices continue to be driven by gas market

Dispatch 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
- Only one opted-out coal plant remains
  - Expected to close this year
- Load factors increased for opted-in coal plant
  - Low coal and carbon prices
- Oil-fired plant closing prior to full utilisation of running hours
  - Littlebrook remains available

Wind capacity / output continues to grow

Sources: Spectron, Brokered Data, Drax assumptions, and based on market prices on 7 February 2014
Appendix 7: Gas Market

Cold winter 2012/13 across Europe
• Gas storage heavily depleted
• Rough storage (UK) record low in April-13
  – Injected at record highs and boosted summer 2013 demand

Mild 2013/14 winter to date
• UK storage levels above seasonal norms
• Lower prompt prices

Longer-term UK gas prices remain strong
• Prices pulled towards oil indexed European prices to attract imports

Fukushima impact on global LNG market continues
• Japanese nuclear constrained
  – 0 of 54 reactors currently in operation
• Increased Asian LNG prices limits UK spot market attractiveness
  – LNG import uncertainty

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
CSP – coal switching price
Appendix 8: Coal Market

Global steam coal market remains oversupplied

Strong export growth from exporters
- Australia +9.5% (YoY to Nov-13)
- Russia +7.5% (YoY to Oct-13)
- Indonesia +16.5% (YoY to Sept-13)

Chinese steam coal seaborne imports continue to grow, but at slower rate
- Up 5% in 2013 to 157mt
- Imports up 41% in 2012
- Stock levels remain high

UK domestic coal production under pressure
- Indigenous production fell 23% YoY Q1-Q3
- Deep mined production down 34%

US exports to EU beginning to slow
- Lower global prices reduce attractiveness of exports
- EU imports from US fall 10% (YoY to Nov-13)
Appendix 9: Carbon Market

Phase III EUA ETS – new lows in 2013

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

Back-loading now approved
  • Slight uncertainty remains over timing
    – 300mt or 400mt removed from 2014
  • Requires European Council approval

EU Council looking at 2030 European Climate and Energy Policy framework:
  • Challenge to get all member states to agree targets

Some 2013 free allowances still to be issued
  • With 2014 to follow shortly thereafter
Appendix 10: Forward Spread Movements

Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread – 49%
Prices as of 7th February 2014
Appendix 11: Commodity Price Movements

Power Prices

UK NBP Gas Price

Coal Prices (API 2)

Carbon Prices

Sources: Brokered Trades, Spectron

Source: McCloskeys, Brokered Trades

Source: ICE ECX

Source: Spectron

All prices as at 7th February 2014
### Appendix 12: LCPD and IED

<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 Out (MW)</th>
<th>Opted Out Hours Remaining (Elexon – Jan 2014)</th>
<th>IED – Stations with Opted Out Units</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drax</td>
<td>Drax Power</td>
<td>Coal</td>
<td>3870</td>
<td>3870</td>
<td>0</td>
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</tr>
<tr>
<td>Eggborough</td>
<td>EPL</td>
<td>Coal</td>
<td>1960</td>
<td>1960</td>
<td>0</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Cottam</td>
<td>EDF Energy</td>
<td>Coal</td>
<td>2008</td>
<td>2008</td>
<td>0</td>
<td></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></td>
<td>X</td>
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<tr>
<td>Kingsnorth</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>1940</td>
<td>0</td>
<td>1940</td>
<td>Closed</td>
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<td>Ratcliffe</td>
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<td>2000</td>
<td>2000</td>
<td>0</td>
<td></td>
<td></td>
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<td>Ironbridge</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>970</td>
<td>0</td>
<td>970</td>
<td>47%</td>
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<td>Rugeley</td>
<td>International Power</td>
<td>Coal</td>
<td>996</td>
<td>996</td>
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<td>Ferrybridge</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>1960</td>
<td>980</td>
<td>980</td>
<td>U1&amp;2 5%</td>
<td>X</td>
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<td>Fiddlers Ferry</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>1961</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>
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<td>Cockenzie</td>
<td>Scottish Power</td>
<td>Coal</td>
<td>1152</td>
<td>0</td>
<td>1152</td>
<td>Closed</td>
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<tr>
<td>Uskmouth</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>393</td>
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<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Didcot A</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1940</td>
<td>0</td>
<td>1940</td>
<td>Closed</td>
<td>N/A</td>
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<tr>
<td>Tilbury*</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1020</td>
<td>0</td>
<td>1020</td>
<td>Closed</td>
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<td>Aberthaw</td>
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<td>1455</td>
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<tr>
<td>Grain</td>
<td>E.ON UK</td>
<td>Oil</td>
<td>c.1300</td>
<td>0</td>
<td>c.1300</td>
<td>Closed</td>
<td>N/A</td>
</tr>
<tr>
<td>Littlebrook</td>
<td>RWE npower</td>
<td>Oil</td>
<td>c.1100</td>
<td>0</td>
<td>c.1100</td>
<td>87%</td>
<td></td>
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<tr>
<td>Fawley</td>
<td>RWE npower</td>
<td>Oil</td>
<td>c.1000</td>
<td>0</td>
<td>c.1000</td>
<td>Closed</td>
<td>N/A</td>
</tr>
</tbody>
</table>

**Total**  
|               |                    |      | 31301                    | 19899                 | 11402                  |

*Source: Elexon, Oxera, Drax data as at Jan 2014  
*RWE previous proposed conversion of Tilbury to 100% biomass, but plant now closed*
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 2013/14 this is c.£5/tonne CO\(_2\); equivalent to c.£12/tonne coal
- For 2014/15 this is c.£10/tonne CO\(_2\); equivalent to c.£23/tonne coal
- For 2015/16 this is £18/tonne CO\(_2\); equivalent to c.£43/tonne coal
- The indicative rates for 2016/17 and 2017/18 are £21/tonne and £25/tonne CO\(_2\) respectively
## Appendix 14: ROC Banding and CfD Strike Prices

<table>
<thead>
<tr>
<th>Technologies</th>
<th>ROC Support</th>
<th>CfD Support&lt;sup&gt;(2)&lt;/sup&gt;</th>
</tr>
</thead>
<tbody>
<tr>
<td>Onshore wind</td>
<td>0.9</td>
<td>£95, £95, £95, £90, £90</td>
</tr>
<tr>
<td>Conversion&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>1.0</td>
<td>£105, £105, £105, £105, £105</td>
</tr>
<tr>
<td>Enhanced co-firing (85% - 99%)</td>
<td>0.7 (2013 – 2014)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>0.9 (2014+)</td>
<td></td>
</tr>
<tr>
<td>Enhanced co-firing (51% - 84%)</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Standard co-firing (&lt; 50%)</td>
<td>0.3 – 0.5</td>
<td></td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Excluding allowance of up to 10% additives  
<sup>(2)</sup> CfD prices in 2012 terms, plus inflation
Appendix 15: Drax Site Development Schematic