

# Preliminary Results

12 Months Ended 31 December 2013

18 February 2014



# Agenda

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## **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

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## 2013 performance

Underlying profits ahead of expectations

Increasing cost of carbon

Good operations

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## 2014 outlook

Markets weaker with mild winter

Modify unit to enhanced co-firing

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## Biomass transformation

Unit performance surpassing expectations

CfD to underpin future unit conversions

EBITDA

£230m

Underlying Earnings Per Share

35.3p

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

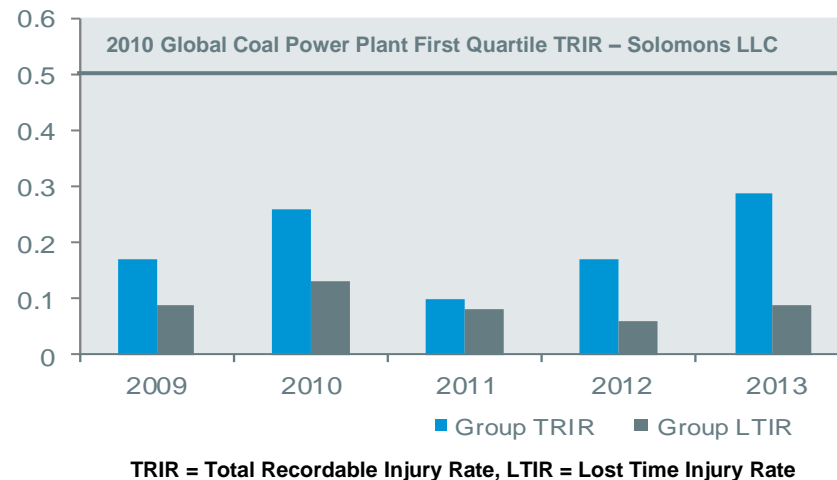
### 84% availability (2012: 86%)

- 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%)

(1) By heat

## Safety Performance



## Fuel Mix

	2013		2012	
	Tonnes	Mix% <sup>(1)</sup>	Tonnes	Mix% <sup>(1)</sup>
Coal	8.5Mt	85%	9.6Mt	90%
Advantaged Fuels	0.8Mt	3%	0.8Mt	5%
Biomass	1.6Mt	12%	0.2Mt	2%
Biomass R&D	-	-	0.5Mt	3%

# Business Review – Biomass Operations

## First converted unit performing very well

### Unit initially fuelled using existing co-firing plant

- Temporary fuel delivery systems

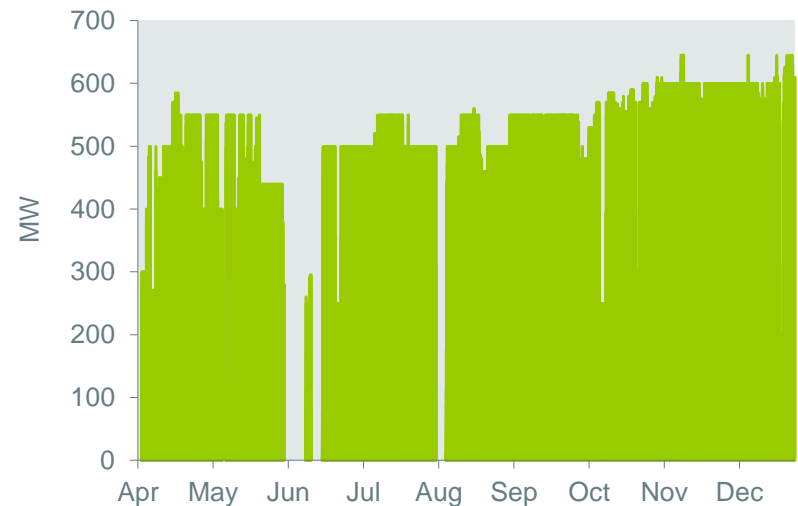
### Progressive commissioning of new on-site facilities from October

- 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

First Converted Unit Output



Physical Notifications: April 2013 - January 2014

Source: Drax, Balancing Mechanism Reporting Agent data

# Business Review – Haven Power

## Credit-efficient route to market

### On track for 12 - 15TWh by 2015

- Sales growth and credit quality remain business priority
  - I&C and SME markets<sup>(1)</sup>

### Substantial sales growth 2013

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

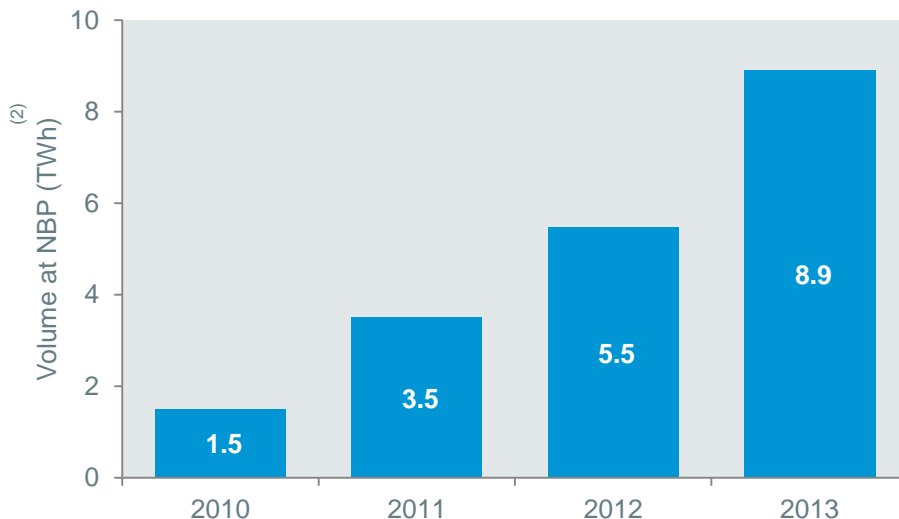
### New customer management and billing system now fully deployed

- 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

Haven Power Sales



1) I&C = Industrial and Commercial, SME = Small and Medium Enterprises

2) NBP = Notional Balancing Point

# Business Review – Markets and Trading

## 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

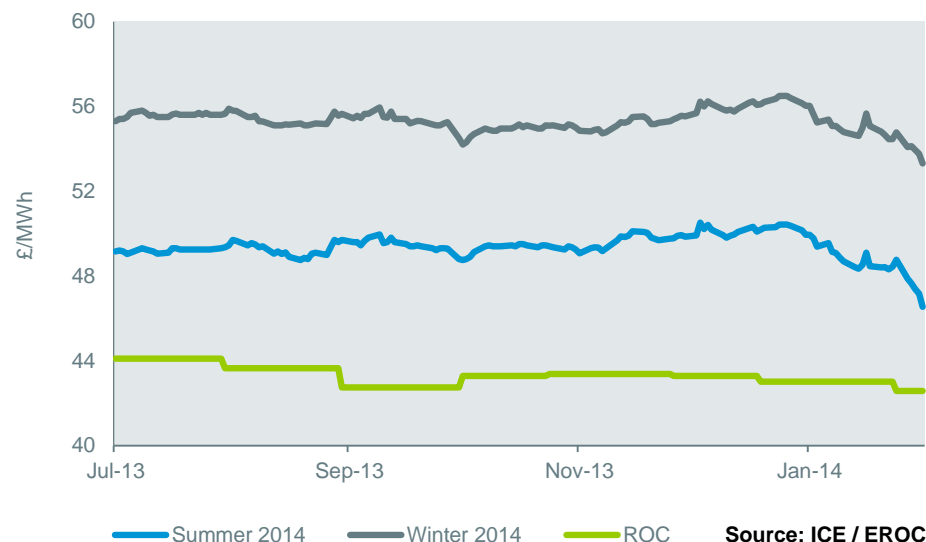
### Biomass hedging

- 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

## Power and ROC Prices



Power Sales Contracted as at 10 February 2014	2014	2015
Power Sales – TWh	22.1	7.2
Comprising:		
Fixed Price TWh	19.7 @	5.3 @
at Average Achieved Price £ per MWh	52.9	55.5
Fixed Margin and Structured Contracts TWh	2.4	1.9

# Contracts for Difference (CfD)

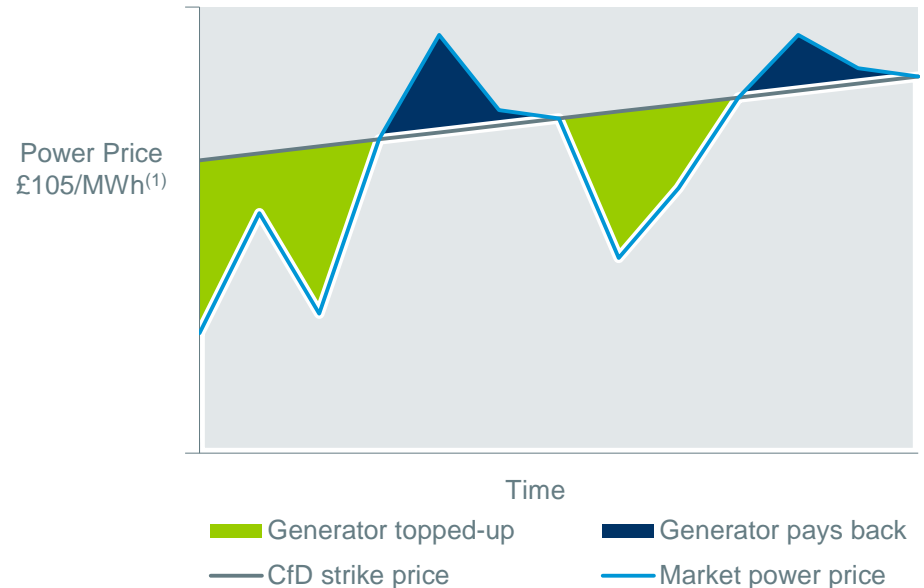
## CfD structure

- 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

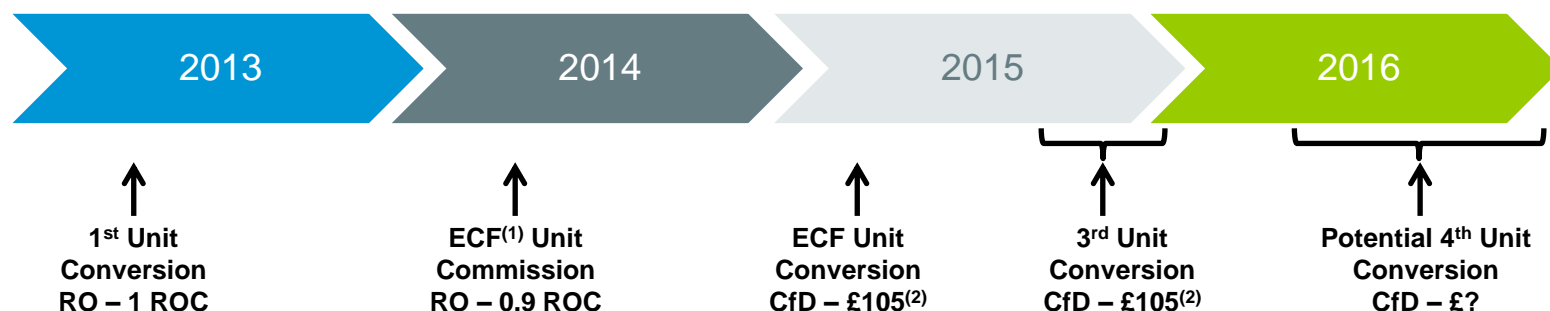
## CfD Mechanism Illustration



(1) 2012 prices, CPI inflation



# Biomass – Schedule for Increasing Generation



## 2014 – focus on optimising biomass unit performance

- Improve operations of 1<sup>st</sup> converted unit earning 1ROC/MWh
- Modify unit in April for increased biomass burn
- Unit to operate from May as ECF<sup>(1)</sup> 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 3<sup>rd</sup> 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 4<sup>th</sup> unit under enduring CfD
  - Engineering and biomass sourcing strategies well advanced
  - Load factor will depend on biomass supply chain development

(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 1<sup>st</sup> 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

Dome Storage – January 2014



# Biomass – Fuel Supply

## Near-term volumes

### Good progress

- > 4Mt for 2014/15 ROC year

## Long-term volumes

### Negotiations progressing for 2<sup>nd</sup> and 3<sup>rd</sup> 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

Dust Extraction System – January 2014



# 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

# Biomass – Logistics

## Freight

### First long-term freight contracts concluded

- Own pellet production plus some 3<sup>rd</sup> 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

2014	Facilities Fully Operational
Q1	2 Domes Total storage c.150kt Hull Port Total capacity c.3Mt pa
Q2	100 Rail Wagons Total capacity c.4Mt pa
Q3	4 Domes Total storage c.300kt
Q4	170 Rail Wagons Total capacity c.8Mt pa Immingham Port Total capacity c.6Mt pa

# Biomass Sustainability

## All Drax biomass procured against robust industry-leading sustainability policy

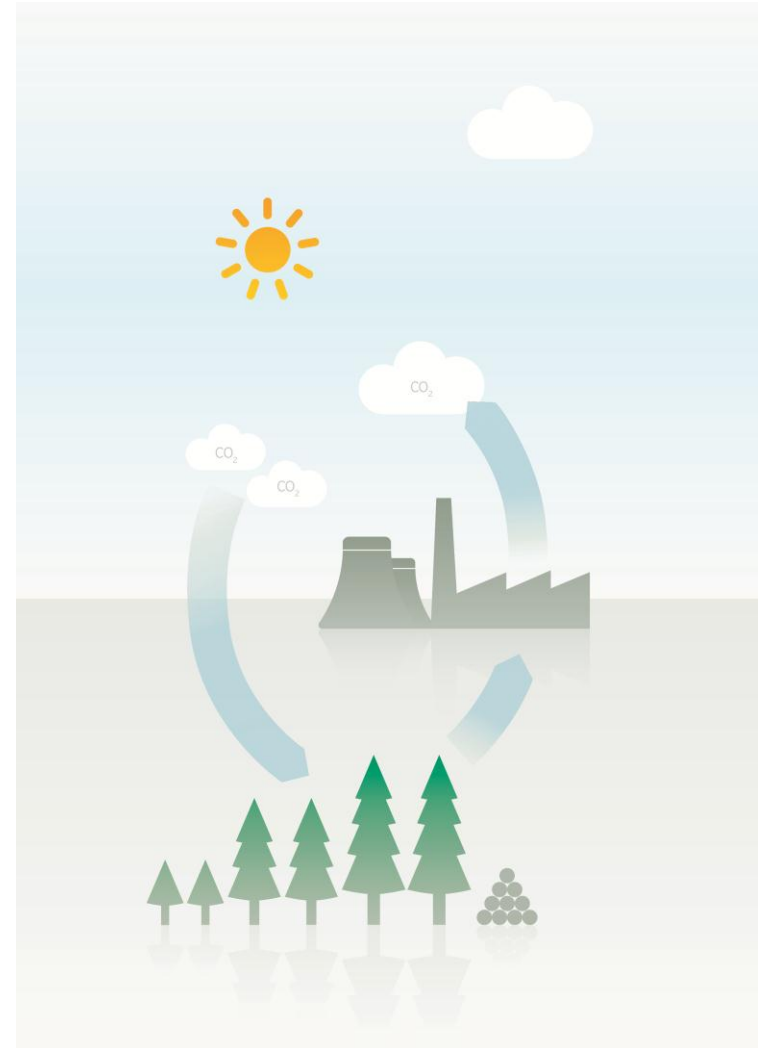
### Fully compliant in 2013

- All biomass carbon foot printed
  - Average GHG<sup>(1)</sup> 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

## Fuel Distribution System – January 2014





# 2013 Financial Review

Tony Quinlan – Finance Director

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EBITDA

£230m

Net Cash<sup>(2)</sup>

£71m

Underlying Earnings Per Share<sup>(1)</sup>

35.3p

Total Dividends

17.6p (£71m)

Final Dividend 8.9p (£36m)

- 2013 profits – good operational performance for biomass and coal
- Year on year profit reduction – increasing cost of carbon

- 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)

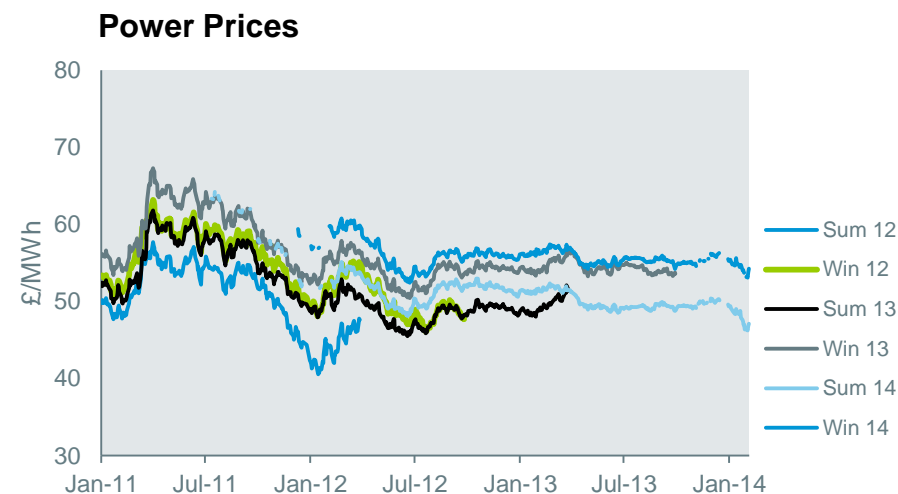
2) Cash of £287m less borrowings of £216m

# Income Statement – Summary

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

# Income Statement – Revenue

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



Sources: Brokered Trades, Spectron

(1) Net of intercompany eliminations of £34m (2012: £26m)

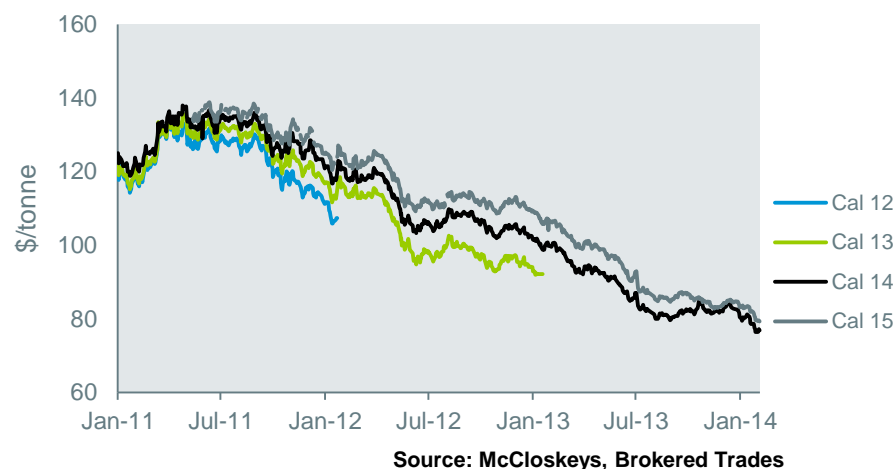
# Income Statement – Cost of Sales

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

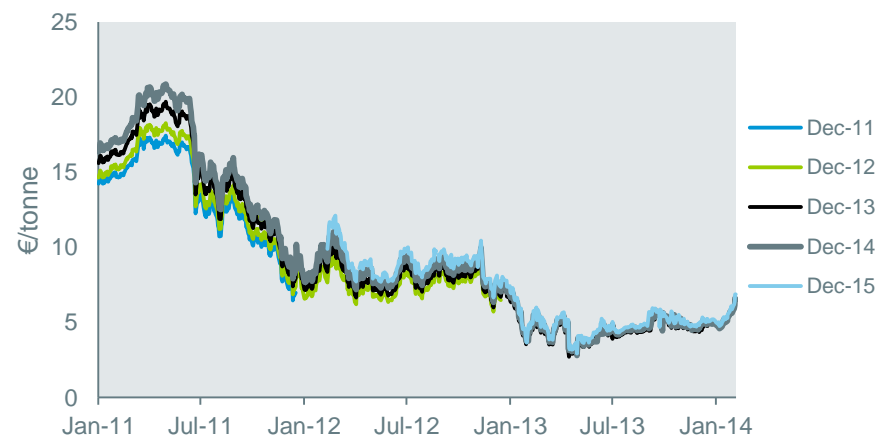
(1) Includes cost of fuel sold of £28m (2012: £20m)

(2) Includes carbon tax (charged on coal deliveries and recognised as fuel cost on burn) and excludes cost of fuel sold

**Coal Prices (API 2)**



**Carbon Prices**



# Operating Costs

## Operating costs – £215m in 2013

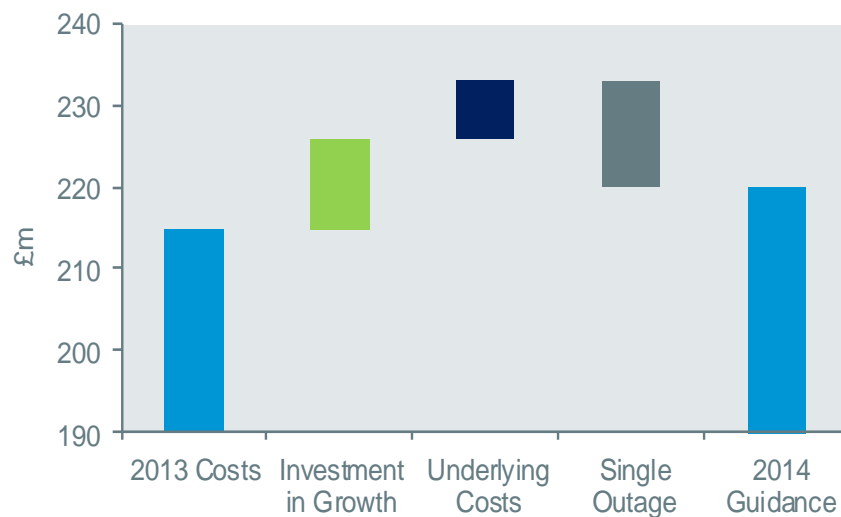
**2013 total operating cost increase £2m, in line with guidance**

- Double outage year
- Investment in growth plus underlying cost inflation +£7m (4%)
- End of CESP<sup>(1)</sup> -£5m

## 2014 operating cost guidance: £220m

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

## 2014 Operating Cost Guidance



(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)

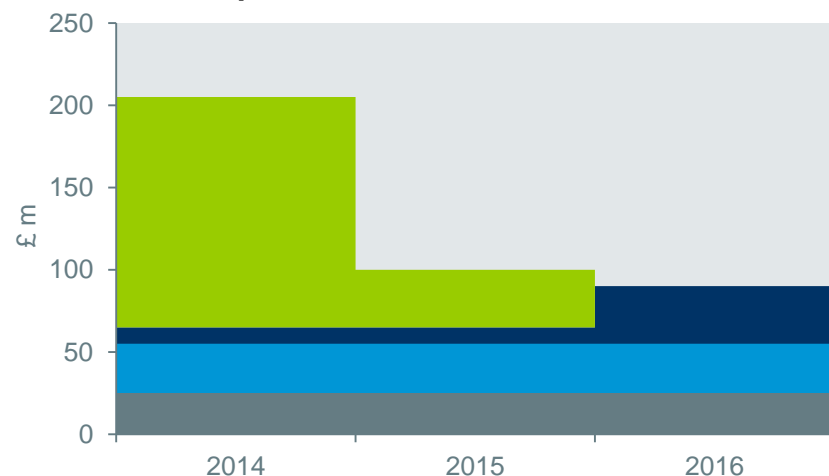
### Evaluating further investments in:

- Supply chain
- Fourth unit conversion

## Transformation Capex

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

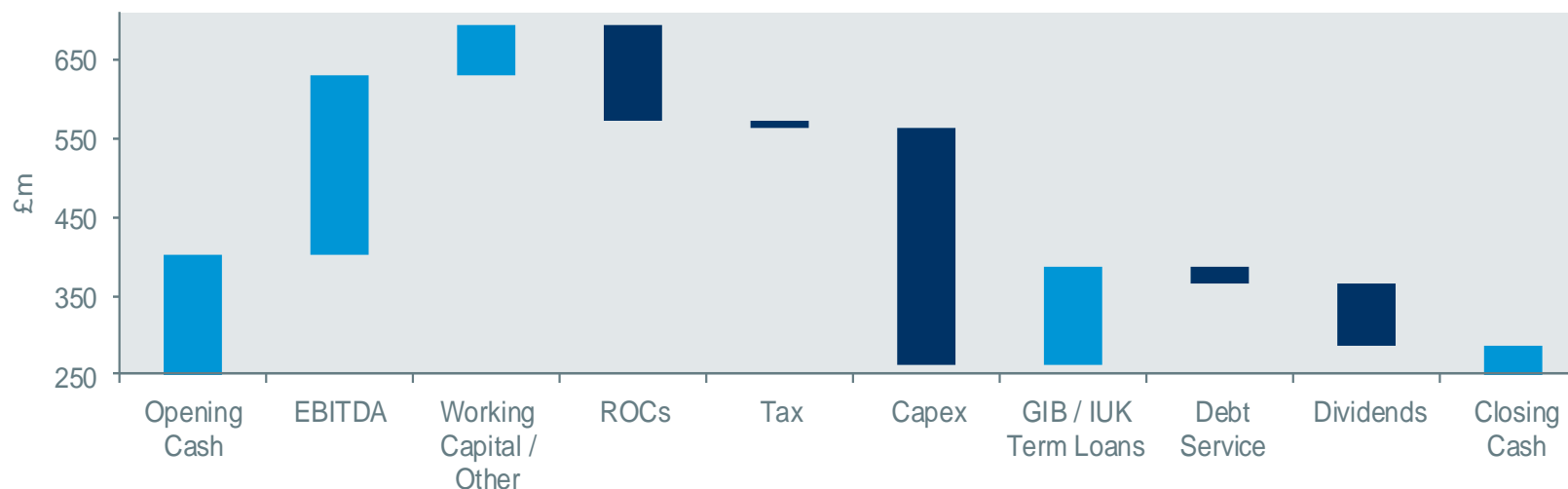
## Total Capex Outlook



■ Transformation (excl. IED) ■ IED ■ Biomass Unit Optimisation ■ Maintenance

# Cash Flow

## 2013 Cash Flow



Working Capital / Other	ROCs / LECs	Tax	Capex	Dividends	Closing Cash
£64m	(£121m)	(£11m)	(£302m)	(£79m)	£287m
Biomass stocks inflow £7m <i>Stocks of 0.3Mt</i> Coal stocks outflow (£49m) <i>0.6Mt increase to 2.2Mt</i> Other net inflow £106m <i>Increase in creditors</i> <i>(carbon tax, Haven accruals)</i>	Increase in ROCs / LECs	Payments in respect of 2012/13 £18m Net of repayment in respect of R&D £7m	Cash payments for capex	Final 2012 dividend of 10.9p/share Interim 2013 dividend of 8.7p/share	Net cash after borrowings £71m

# Financing and Working Capital

## 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<sup>(1)</sup> 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

#### Debt

M&G £100m  
UK GIB £50m  
Friends Life £75m

#### Working Capital and LC Facility

£400m

#### Commodity Trading Line



# 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 3<sup>rd</sup> 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<sup>nd</sup> and 3<sup>rd</sup> unit conversions likely H1 2014
  - Key driver of timing for decisions on capital structure and distribution policy

Covered Conveyors – January 2014



# Financial Review – Key Takeaways

## Changes to key assumptions

	Previous Assumption	Current Assumption
<b>Biomass Unit Technical Performance</b>	Output 600MW Efficiency 1.3% lower than coal Availability – 80% and rising	Output 630MW from 2014 Efficiency 0.5% lower than coal from 2014 Availability 80% in 2014/15 and 85% - 90% from 2016
<b>Increased Biomass Generation Capacity</b>	2 <sup>nd</sup> unit conversion – Q2 2014 3 <sup>rd</sup> unit conversion – mid-2016	Unit ECF <sup>(1)</sup> modification – May 2014 to Mar 2015 2 <sup>nd</sup> unit conversion – April 2015 3 <sup>rd</sup> unit conversion – earliest Q4 2015 <sup>(2)</sup>
<b>Support Mechanism</b>	2 <sup>nd</sup> unit conversion – 1 ROC 3 <sup>rd</sup> unit conversion – 1 ROC	ECF unit – 0.9 ROCs 2 <sup>nd</sup> unit conversion (2015) – Early CfD 3 <sup>rd</sup> unit conversion – Early CfD
<b>Capex for Biomass Unit Optimisation</b>	n/a	£90m over 3 years (3 units)
<b>Other 2014 Financial Guidance</b>	n/a	Depreciation: £80m - £85m Net interest: c.£25m Effective tax rate: close to corporation tax rate Total Capex: c.£200m

(1) ECF = Enhanced Co-firing

(2) Load factor dependent on biomass supply chain development

# Summary

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## 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 4<sup>th</sup> 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

Dome Storage – January 2014



# Drax Transformed – the Group in 2016

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## 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
- 4<sup>th</sup> 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

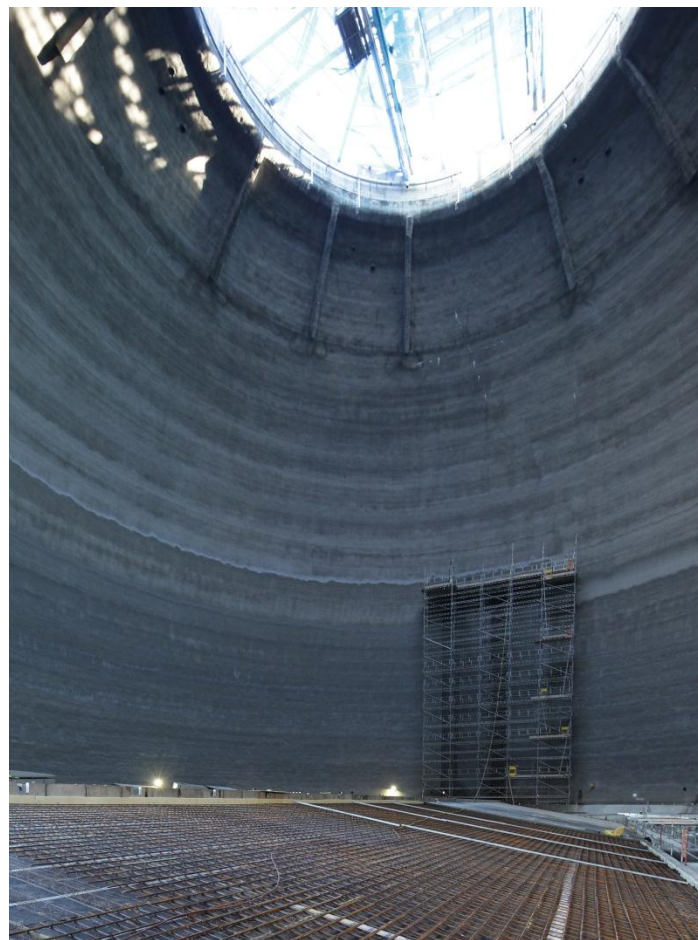


# Appendices

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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

<b>API2/4/6</b>		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.
	<b>AVERAGE ACHIEVED PRICE</b>	Power revenues divided by volume of net sales (includes imbalance charges).
<b>BM</b>	<b>BALANCING MECHANISM</b>	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.
<b>CESP</b>	<b>COMMUNITY ENERGY SAVING PROGRAMME</b>	CESP was created as part of the Government's Home Energy Saving Programme. It required 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.
<b>DECC</b>	<b>DEPARTMENT FOR ENERGY AND CLIMATE CHANGE</b>	
	<b>DIRECT INJECTION</b>	A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.
<b>EBITDA</b>		Profit before interest, tax, depreciation, amortisation and unrealised gains/(losses) on derivative contracts.
<b>ELV</b>	<b>EMISSION LIMIT VALUES</b>	One of the mechanisms available to implement the LCPD. This sets annual limits on the emissions of NO <sub>x</sub> , SO <sub>2</sub> and particulate which will be incorporated into the forthcoming PPC permit.
<b>EUA</b>	<b>EU ALLOWANCE</b>	European Union Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO <sub>2</sub> .
<b>EU ETS</b>	<b>EU EMISSIONS TRADING SCHEME</b>	Trading Scheme within the European Union. The first compliance phase ran from 2005-07, the second compliance phase continued from 2008-12 and the third phase is proposed to run from 2013-2020.
<b>IUK</b>	<b>INTERCONNECTOR UK</b>	Sub sea gas pipeline and terminal facilities providing a bi-directional link between the UK and continental European energy markets.
<b>LCPD</b>	<b>LARGE COMBUSTION PLANT DIRECTIVE</b>	European Union Large Combustion Plant Directive sets emission standards for NO <sub>x</sub> , SO <sub>2</sub> and particulate from all Large Combustion Plant (>50MW).
<b>LEC</b>	<b>LEVY EXEMPTION CERTIFICATE</b>	Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.



# Appendix 1: Definitions (cont.)

<b>LNG</b>	<b>LIQUIFIED NATURAL GAS</b>	
<b>LTIR</b>	<b>LOST TIME INJURY RATE</b>	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.
<b>NERP</b>	<b>NATIONAL EMISSIONS REDUCTION PLAN</b>	One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO <sub>x</sub> , SO <sub>2</sub> and particulate which will be incorporated into the forthcoming PPC permit.
<b>NO<sub>x</sub></b>		Nitrogen oxides, emissions of which are regulated under the LCPD.
<b>OFGEM</b>	<b>OFFICE FOR GAS AND ELECTRICITY MARKETS</b>	
	<b>OPTED-IN / OPTED-OUT</b>	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.
	<b>ADVANTAGED FUELS</b>	Fuel that gives a price advantage against standard bituminous coals. Such fuels include, off specification coals and petcoke.
<b>RO</b>	<b>RENEWABLES OBLIGATION</b>	The obligation placed on licensed electricity suppliers to deliver a specified amount of their electricity from eligible renewable sources.
<b>ROC</b>	<b>RENEWABLES OBLIGATION CERTIFICATE</b>	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.
<b>ROSPA</b>	<b>ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS</b>	
<b>SNCR</b>	<b>SELECTIVE NON CATALYTIC REDUCTION</b>	
<b>SO<sub>2</sub></b>		Sulphur dioxide, emissions of which are regulated under the LCPD.
<b>TRIR</b>	<b>TOTAL RECORDABLE INJURY RATE</b>	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries)/ hours worked * 100,000.
<b>UKCS</b>	<b>UK CONTINENTAL SHELF</b>	Gas reserves found off shore in UK waters.
<b>UK NAP</b>	<b>UK NATIONAL ALLOCATION PLAN</b>	Allocation of UK emissions allowances at the national level to individual sites under EU ETS.

# 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%)

## Tax Reconciliation

In £m (unless otherwise stated)	2013	2012
<b>Profit Before Tax</b>	<b>32</b>	<b>190</b>
Tax at CT Rate	7	47
Adjustment to Prior Year Taxes	(7)	(8)
Impact of Reduction in CT rate on Deferred Tax	(22)	(15)
Other	2	2
<b>Tax (Credit) / Charge</b>	<b>(20)</b>	<b>26</b>
<b>Effective Tax Rate – on Underlying Profit Before Tax</b>	<b>0%</b>	<b>15%</b>

# 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

Net Fuel Cost Comprises:	£m	£/MWh
Coal, Carbon Tax and Biomass	876	33.4
ROC / LEC Value Generated	(144)	(49.6)

## 2013 Balance Sheet – ROC and LEC Assets

ROC and LEC Assets	£m
At 31 December 2012	19
ROCs / LECs Generated	144
Purchased	38
Sold or Utilised	(61)
At 31 December 2013	140

## Appendix 4: Financial Calendar

Event	2014
Annual General Meeting	23 April
Ordinary shares marked ex-dividend	23 April
Record date for final dividend	25 April
Final dividend payment date	16 May
Interim Management Statement	Mid May
Financial half year end	30 June
Announcement of Half Year Results	29 July
Interim Management Statement	Mid November
Financial year end	31 December

## Appendix 5: IAS 39 Treatment

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Financial Instrument	Location of Gains and Losses in the 2013 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 6: Power Market

## UK power market

Power prices continue to be driven by gas market

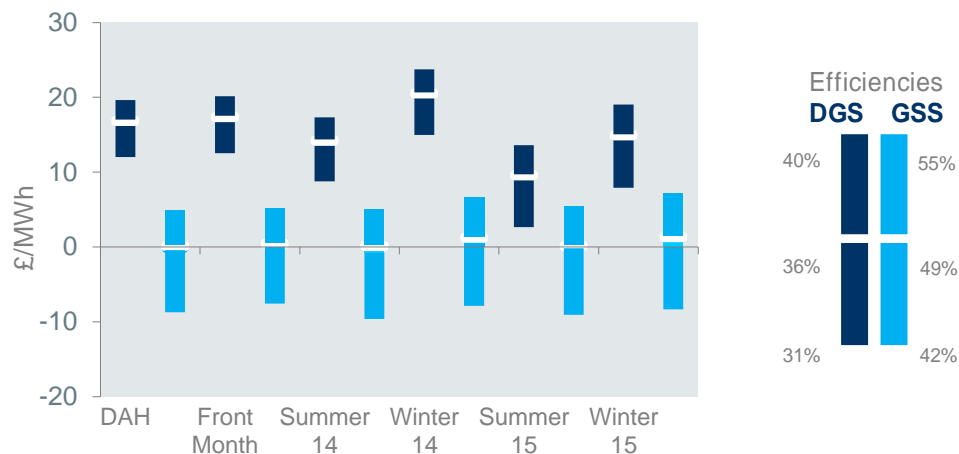
## Dispatch dynamics

Plant efficiencies significant factor in load profiles

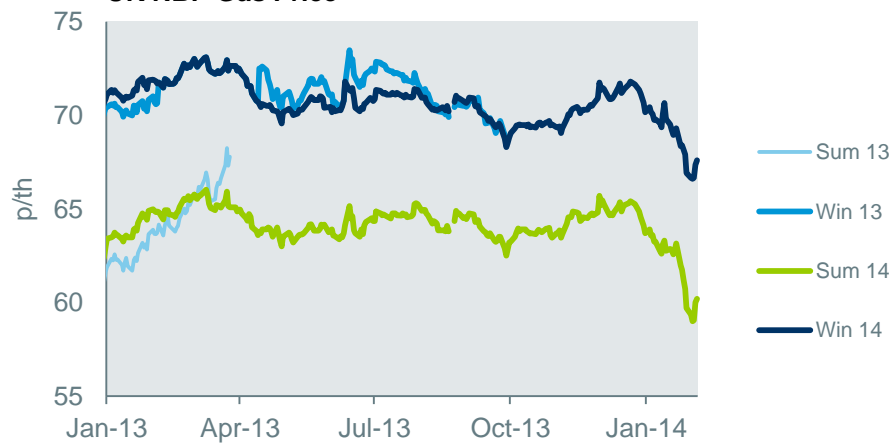
- Different load factors for same fuel plant
- Low GSS resulted in gas plant capacity withdrawn / considered for closure
- Only one opted-out coal plant remains
  - Expected to close this year
- Load factors increased for opted-in coal plant
  - Low coal and carbon prices
- Oil-fired plant closing prior to full utilisation of running hours
  - Littlebrook remains available

Wind capacity / output continues to grow

Range of Market DGS and GSS<sup>(1)</sup> by Efficiency (Baseload)



UK NBP Gas Price



# 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

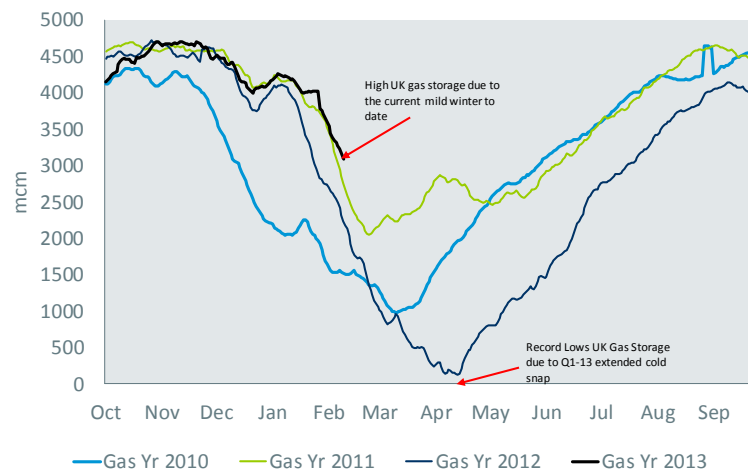
## Longer-term UK gas prices remain strong

- Prices pulled towards oil indexed European prices to attract imports

## Fukushima impact on global LNG market continues

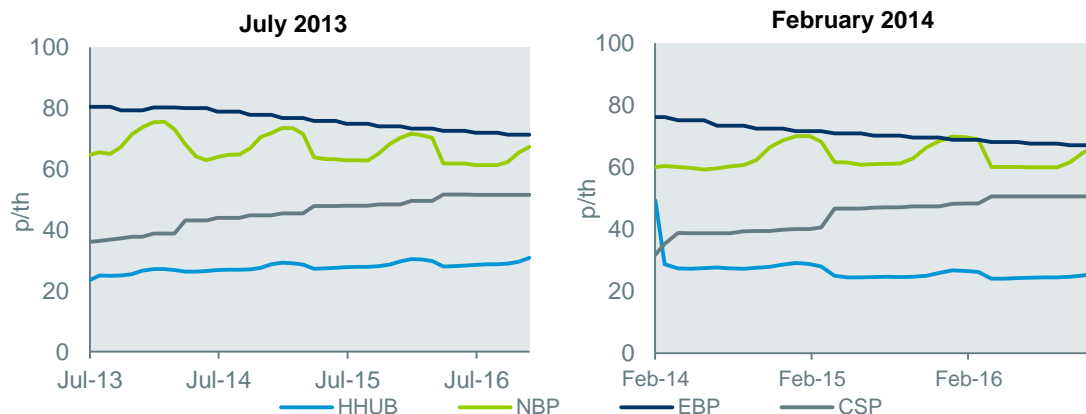
- Japanese nuclear constrained
  - 0 of 54 reactors currently in operation
- Increased Asian LNG prices limits UK spot market attractiveness
  - LNG import uncertainty

UK Gas Storage Year on Year



Data Source: Gas Infrastructure Europe

NBP, Henry Hub and EBP™ Index Forward Curves



# 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

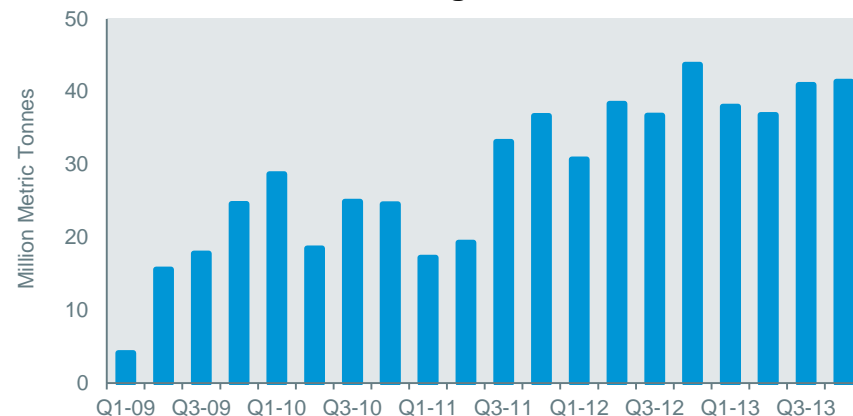
### UK domestic coal production under pressure

- 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)

Chinese Seaborne Freight



UK Indigenous Coal production vs. Net Imports





# 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:

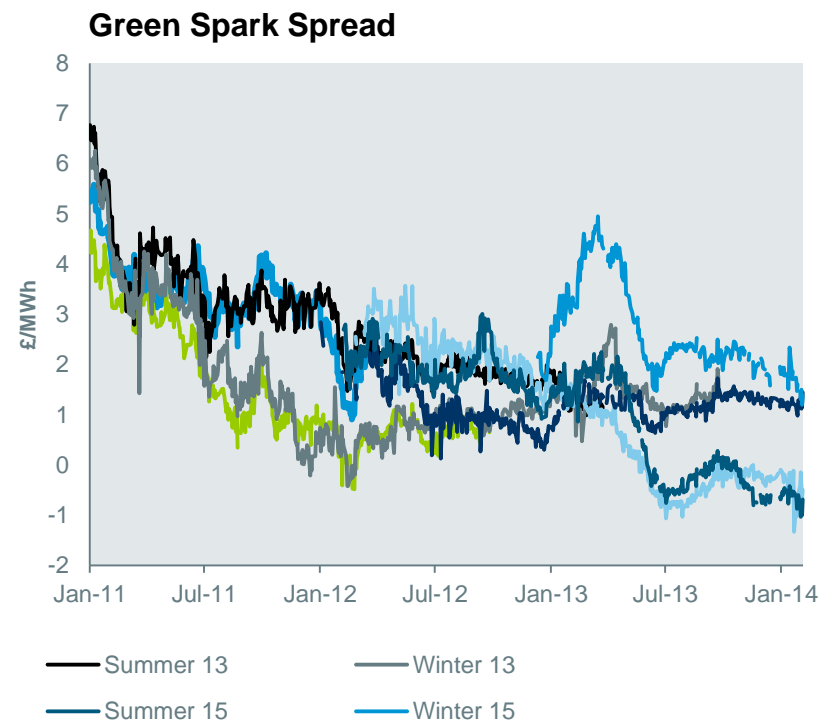
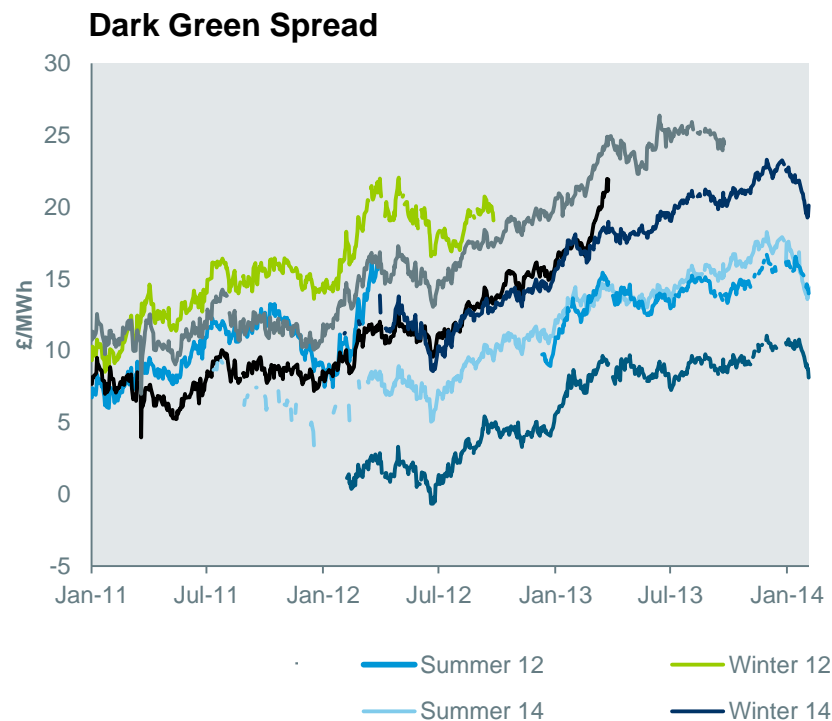
- Challenge to get all member states to agree targets

### 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 7<sup>th</sup> February 2014

# Appendix 11: Commodity Price Movements

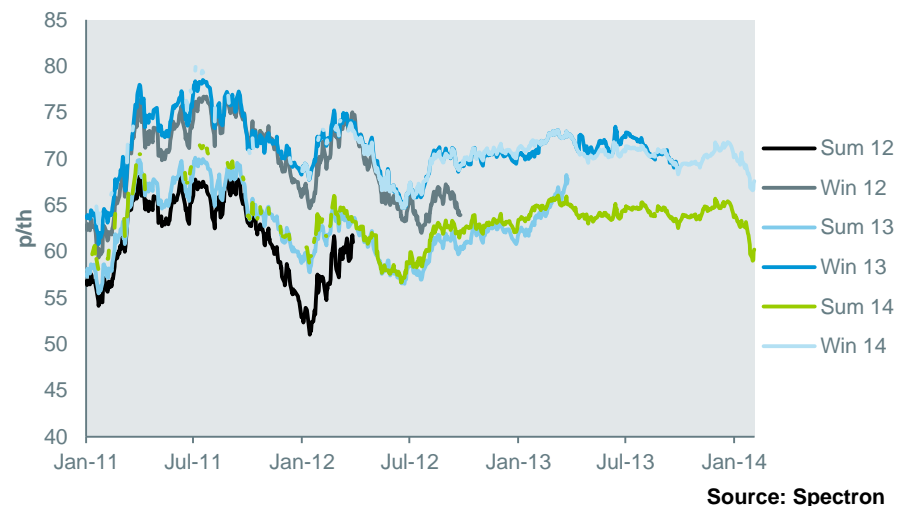
## Power Prices



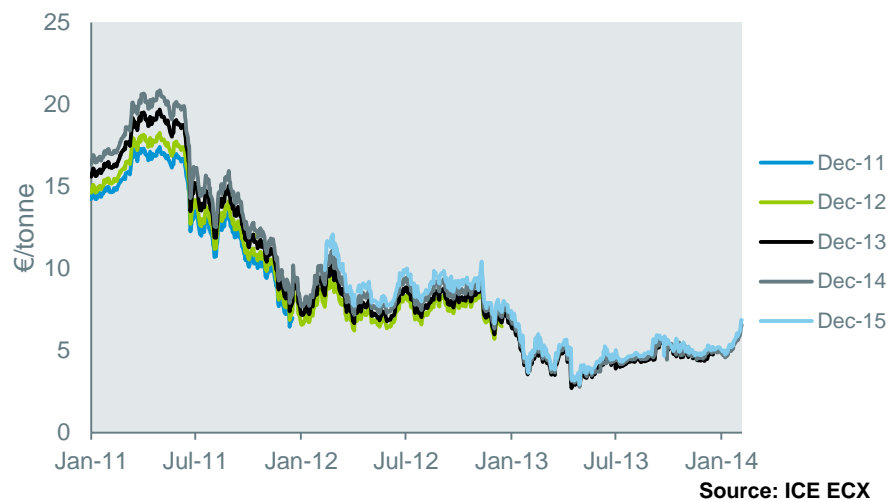
## Coal Prices (API 2)



## UK NBP Gas Price



## Carbon Prices



# Appendix 12: LCPD and IED

Installation	Operator	Fuel	Installed Capacity (MWe)	Capacity Opted In (MW)	Capacity Opted Out (MW)	Opted Out Hours Remaining (Elxon – Jan 2014)	IED – Stations with Opted Out Units
Drax	Drax Power	Coal	3870	3870	0		
Eggborough	EPL	Coal	1960	1960	0		✓
Cottam	EDF Energy	Coal	2008	2008	0		✓
West Burton	EDF Energy	Coal	1972	1972	0		✓
Kingsnorth	E.ON UK	Coal	1940	0	1940	Closed	N/A
Ratcliffe	E.ON UK	Coal	2000	2000	0		
Ironbridge	E.ON UK	Coal	970	0	970	47%	
Rugeley	International Power	Coal	996	996	0		
Ferrybridge	Scottish & Southern Energy	Coal	1960	980	980	U1&2 5%	✓
Fiddlers Ferry	Scottish & Southern Energy	Coal	1961	1961	0		
Longannet	Scottish Power	Coal	2304	2304	0		
Cockenzie	Scottish Power	Coal	1152	0	1152	Closed	N/A
Uskmouth	Scottish & Southern Energy	Coal	393	393	0		
Didcot A	RWE npower	Coal	1940	0	1940	Closed	N/A
Tilbury*	RWE npower	Coal	1020	0	1020	Closed	N/A
Aberthaw	RWE npower	Coal	1455	1455	0		✓
Grain	E.ON UK	Oil	c.1300	0	c.1300	Closed	N/A
Littlebrook	RWE npower	Oil	c.1100	0	c.1100	87%	
Fawley	RWE npower	Oil	c.1000	0	c.1000	Closed	N/A
<b>Total</b>			<b>31301</b>	<b>19899</b>	<b>11402</b>		

Source: Elxon, Oxaera, Drax data as at Jan 2014

\* RWE previous proposed conversion of Tilbury to 100% biomass, but plant now closed

# Appendix 13: Carbon Price Floor

## Introduced in Budget 2011 – effective April 2013

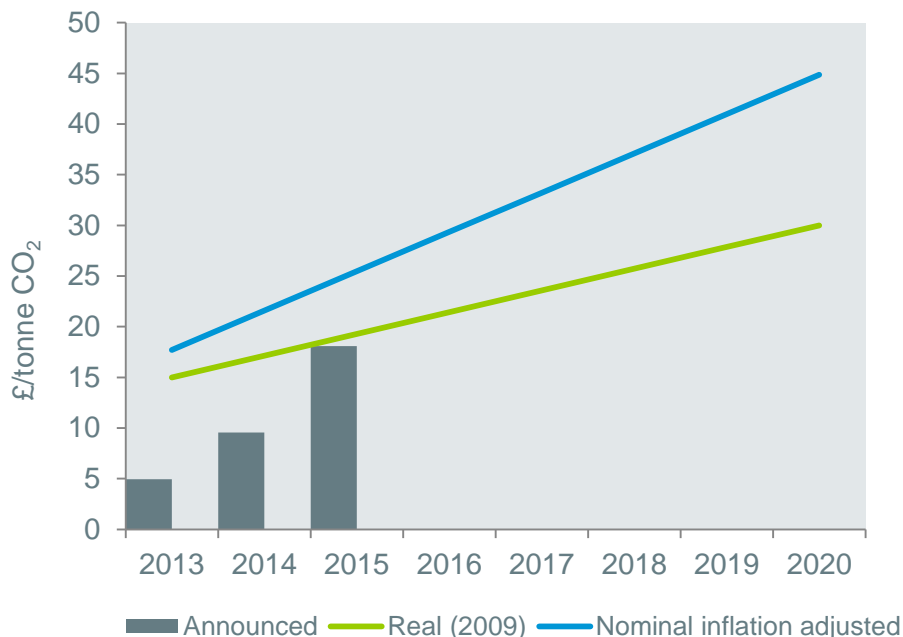
### Climate Change Levy (CCL) amended to indirectly supplement EU ETS carbon price

- Based on fuel (coal) consumption

### Tax per tonne CO<sub>2</sub> 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<sub>2</sub>; equivalent to c.£12/tonne coal
- For 2014/15 this is c. £10/tonne CO<sub>2</sub>; equivalent to c.£23/tonne coal
- For 2015/16 this is £18/tonne CO<sub>2</sub>; equivalent to c.£43/tonne coal
- The indicative rates for 2016/17 and 2017/18 are £21/tonne and £25/tonne CO<sub>2</sub> respectively

HMT Projected Carbon Price Floor to 2020



# Appendix 14: ROC Banding and CfD Strike Prices

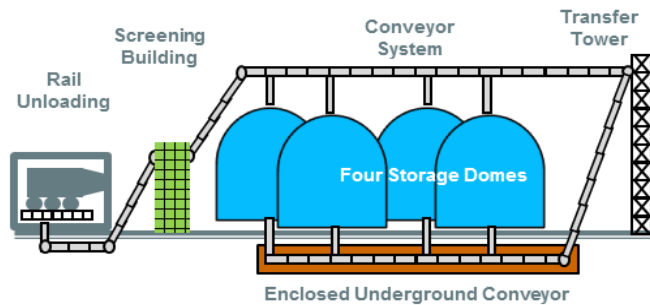
Technologies	ROC Support	CfD Support <sup>(2)</sup>				
		2014/15	2015/16	2016/17	2017/18	2018/19
Offshore wind	2.0 – 1.8	£155	£155	£150	£140	£140
Onshore wind	0.9	£95	£95	£95	£90	£90
Conversion <sup>(1)</sup>	1.0	£105	£105	£105	£105	£105
Enhanced co-firing (85% - 99%)	0.7 (2013 – 2014) 0.9 (2014+)					
Enhanced co-firing (51% - 84%)	0.6					
Standard co-firing (< 50%)	0.3 – 0.5					

(1) Excluding allowance of up to 10% additives

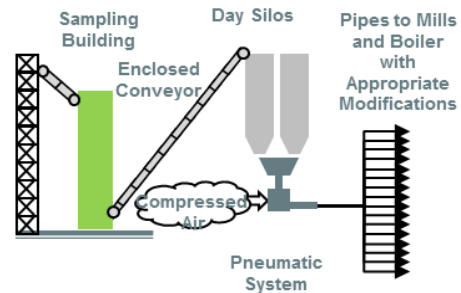
(2) CfD prices in 2012 terms, plus inflation

# Appendix 15: Drax Site Development Schematic

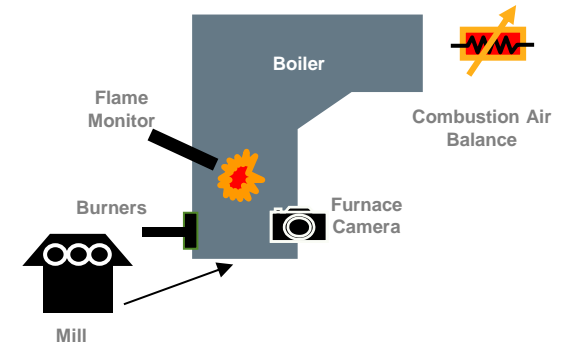
## Rail Unloading and Storage



## Fuel Distribution



## Combustion





# Preliminary Results

12 Months Ended 31 December 2013

18 February 2014

