Group Structure

Biomass Self-supply

Generation Markets and Trading Fuel

Retail
Agenda

**Business Review**
**Dorothy Thompson**
Chief Executive

**2014 Financial Review**
**Tony Quinlan**
Finance Director

**Biomass Update**
**Dorothy Thompson**
2014 Overview
Dorothy Thompson – Chief Executive

Drax Power
Good operations
Significant regulatory headwinds
Major deterioration in commodity markets

Haven Power
Strong sales growth

Drax Biomass
Commercial operations commence shortly

EBITDA
£229m

Underlying Earnings Per Share
23.7p

Total Dividends
11.9p/share (£48m)
Safety and Sustainability

Safety

Maintaining good safety performance
- > 65% increase in hours worked since 2012

Sustainability

All Drax biomass procured against robust industry leading sustainability policy
- Fully compliant in 2014
- Delivering > 80% carbon lifecycle savings vs. coal
- Thorough PWC independent audit process

DECC working towards October 2015 mandatory standards

Sustainable Biomass Partnership
- Industry sustainability standard to be launched March 2015

GHG(1) Life Cycle Emissions vs. Fossil Fuels

<table>
<thead>
<tr>
<th></th>
<th>Drax Biomass in 2014</th>
<th>GHG Target 2015-2020(2)</th>
<th>Gas(3)</th>
<th>Coal(4)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>34g CO₂/MJ</td>
<td>79g CO₂/MJ</td>
<td>193g CO₂/MJ</td>
<td>280g CO₂/MJ</td>
</tr>
</tbody>
</table>

GHG = Green House Gas
(1) DECC proposed target (includes emissions from transportation)
(2) Source: Friends of the Earth, Russian piped gas
(3) Source: Environment Agency, UK-mined coal average
Drax Power – Generation

Biomass now > 30% of generation capacity
- Two converted units
- Third unit – high biomass burn from Q3 2015
- First major planned outage for biomass unit in 2015

Capacity payments secured for 2018/19
- Two coal units c.£10m pa per unit (1-year contract)
- Opportunity for third coal unit in future auctions
  - If no fourth biomass unit – bid in 2017 for 2018/19

Regulatory
- State aid clearance process underway for Early CfD
- Consultation on removing grandfathered support under RO for future biomass conversions

Carbon Capture and Storage
- 2-year feasibility study ongoing
- Investment decision H1 2016
  - Subject to successful funding and incentive mechanism for low carbon technologies

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### Generation by Fuel Type

<table>
<thead>
<tr>
<th>Generation (Net Sales)</th>
<th>2014</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>18.8</td>
<td>23.3</td>
</tr>
<tr>
<td>Biomass</td>
<td>7.9</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>26.7</strong></td>
<td><strong>26.2</strong></td>
</tr>
</tbody>
</table>

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### Biomass Generation and Carbon Abatement

- Carbon emissions (Mt)
- % of biomass generation

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Drax Group plc
Drax Power – Markets and Trading

Market developments

Commodity outlook challenging

- Falling oil prices
- Mild winter across Europe
  - Weak gas market, high gas storage
  - Weak power markets
- International coal remains weak
- Lower 2014/15 ROC prices
  - Recycle fee pressure

Group Power Sales

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Sales – TWh</td>
<td>20.4</td>
<td>9.4</td>
</tr>
<tr>
<td>Comprising:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Price TWh at</td>
<td>18.0</td>
<td>8.0</td>
</tr>
<tr>
<td>Average Achieved Price</td>
<td>50.8</td>
<td>49.4</td>
</tr>
<tr>
<td>£ per MWh</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fixed Margin Contracts</td>
<td>2.4</td>
<td>1.4</td>
</tr>
<tr>
<td>TWh</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

UK Gas Prices

Range of Fossil Fuel Spreads by Efficiency (Baseload)

Sources: Spectron, Brokered Data, Drax assumptions, based on market prices on 20th February 2015

(1) At NBP (National Balancing Point)  (2) DGS = dark green spread, GSS = green spark spread

Drax Group plc
Drax Power – Fuel

Coal

Change in coal profile
• Decrease in UK coal
• Increase in international (low nitrogen) coal

Biomass

Good progress with near-term biomass volumes
• > 6Mt contracted for 2015/16 ROC year
• Disruption in EU demand continues to assist with near-term volumes

Lower volumes contracted from 2016/17
• Biomass unit load factors dependent on successful commissioning at new third party pellet plants
• Early CfD would underpin acceleration

Biomass cost management
• Priority on securing long-term contracts with fixed price formulae
  - Rolling hedges for oil, fx and freight (forecast volumes)
Drax biomass sourced from established commercial forests

- Primary economic driver is sawlog
  - Cost too high for use in biomass generation
- Biomass generation uses low grade wood
  - Forest sourced thinnings, branches, tops and other low grade wood
  - Sawdust and chips
- Demand for pulpwood is in decline in many regions, especially US South
- Growing wood pellet sector is complementary to other forest products
- Pellet demand helps underpin forestry economics

"A wood that pays, stays"

Indicative US South Stumpage (US$/short ton)

- Branches and tops (Low grade wood) → $1 - $2
- Small dimension e.g. Pulpwood (Low grade wood) → $6 - $15
- Large dimension e.g. Large sawlog → $25 - $50

Stumpage = value of standing timber
c.2.2 short tons of low grade wood = 1 metric tonne of pellets
Drax Power – Fuel: Biomass Sourcing

Drax fuel supply

• All wood pellets manufactured from low grade wood
• Major carbon savings > 80% vs. coal in 2014
• Sourced from sustainably managed forests
  - No depletion of carbon stock
• > 80% from North America in 2014
  - Well established commercial forestry industry
• Focus on US South
  - Positive growth:drain ratio\(^{(3)}\) in key US South regions
  - > 100Mt surplus growth over removal in 2012

<table>
<thead>
<tr>
<th>2014 Burn</th>
<th>Sawdust and Chips</th>
<th>Forest Sourced(^{(1)})</th>
<th>Total(^{(4)})</th>
<th>Mix %</th>
</tr>
</thead>
<tbody>
<tr>
<td>US</td>
<td>0.4Mt</td>
<td>1.9Mt</td>
<td>2.3Mt</td>
<td>59%</td>
</tr>
<tr>
<td>Canada</td>
<td>0.8Mt</td>
<td>0.1Mt</td>
<td>0.9Mt</td>
<td>23%</td>
</tr>
<tr>
<td>Other</td>
<td>0.3Mt</td>
<td>0.4Mt</td>
<td>0.7Mt</td>
<td>18%</td>
</tr>
<tr>
<td>Total</td>
<td>1.5Mt</td>
<td>2.4Mt</td>
<td>3.9Mt</td>
<td>100%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Mix %</th>
</tr>
</thead>
<tbody>
<tr>
<td>39%</td>
</tr>
<tr>
<td>61%</td>
</tr>
<tr>
<td>100%</td>
</tr>
</tbody>
</table>

Drax Woody Biomass Sourcing by Product and Region

Drax Woody Biomass Sourcing by Product (2014 Burn)

- Sawdust and chips
- Forest residues\(^{(2)}\)
- Thinnings
- Diseased / storm salvaged wood

(1) Forest sourced = forest residues, thinnings and diseased / storm salvaged wood
(2) Forest residues = branches, tops and other low grade wood
(3) Growth:drain ratio = ratio of forest growth to forest removal (> 1 = net increase in timber stock)
(4) Excludes agricultural residues of 0.2Mt
Haven Power – Retail

Credit-efficient route to market

Retail sales 12.4TWh at NBP\(^{(1)}\) (2013: 8.9TWh)
- In line with strategic plans (12-15TWh by 2015)
- I&C and SME markets\(^{(2)}\)

2014 performance
- Retail sales £1.1bn (2013: £751m)
- 13.3TWh already contracted for 2015
- Good progress with large contracts
- Credit quality remains good with low bad debt experience
- Consistent strong service performance
  - Datamonitor survey October 2014 – ranked 2\(^{nd}\) in both Major Energy Buyers and SME surveys

Systems improvement continuing
- Increased regulatory requirements delivered
- Customised arrangements for large accounts

1) NBP = National Balancing Point
2) I&C = Industrial and Commercial, SME = Small and Medium Enterprises
Drax Biomass Inc – Biomass Self-supply

US Gulf construction

On schedule and budget

- Amite 450kt pa pellet plant in commissioning
  - First pellets produced
  - COD\(^{(1)}\) forecast March
- Morehouse 450kt pa pellet plant
  - Log-line commissioning
  - COD forecast June
- Pellet plant full capacity 6 months post COD
- Baton Rouge 3Mt pa port facility
  - 1st shipment Q2 2015

Options to expand US supply chain

Significant benefits from own pellet production

- Optimise supply chain
- US Gulf – Baton Rouge hub
  - Evaluating investment in 3\(^{rd}\) pellet plant – capacity 0.5Mt
- Continuing to evaluate East Coast hub options

\(^{(1)}\) COD = Commercial Operations Date
2014 Financial Review
Tony Quinlan – Finance Director

EBITDA
£229m

Net Debt\(^{(2)}\)
£99m

Underlying Earnings Per Share\(^{(1)}\)
23.7p

Total Dividends
11.9p (£48m)
Final dividend 7.2p (£29m)

• 2014 profits – marginally ahead of expectations
• Year on year
  - Good operations
  - Increasing cost of UK carbon tax
  - Increasing biomass generation

• Biomass transformation
  - Capex on schedule and budget
  - Investments protecting business in weak markets

1) Excl. exceptional item of £20m (net settlement of Community Energy Saving Programme) and unrealised gains on derivative contracts of £66m (less tax effect)
2) Cash and short-term investments of £221m less borrowings of £320m
## Group Income Statement

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>2014</th>
<th>2013</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>2,805</td>
<td>2,062</td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(2,356)</td>
<td>(1,617)</td>
<td></td>
</tr>
<tr>
<td>Gross Margin</td>
<td>449</td>
<td>445</td>
<td></td>
</tr>
<tr>
<td>Operating Costs</td>
<td>(220)</td>
<td>(215)</td>
<td></td>
</tr>
<tr>
<td><strong>EBITDA</strong></td>
<td>229</td>
<td>230</td>
<td>Flat</td>
</tr>
<tr>
<td>Exceptional items (1)</td>
<td>(20)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>IAS39 Unrealised Gains / (Losses) on Derivative Contracts</td>
<td>66</td>
<td>(110)</td>
<td></td>
</tr>
<tr>
<td>Depreciation</td>
<td>(80)</td>
<td>(65)</td>
<td></td>
</tr>
<tr>
<td><strong>Operating Profit</strong></td>
<td>195</td>
<td>55</td>
<td></td>
</tr>
<tr>
<td>Net Finance Costs</td>
<td>(29)</td>
<td>(23)</td>
<td></td>
</tr>
<tr>
<td><strong>Profit Before Tax</strong></td>
<td>166</td>
<td>32</td>
<td></td>
</tr>
<tr>
<td>Tax (Charge) / Credit</td>
<td>(37)</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td><strong>Reported Earnings</strong></td>
<td>129</td>
<td>52</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Earnings</strong></td>
<td>96</td>
<td>142</td>
<td></td>
</tr>
<tr>
<td><strong>Reported Basic Earnings Per Share (pence)</strong></td>
<td>32</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td><strong>Underlying Basic Earnings Per Share (pence)</strong></td>
<td>23.7</td>
<td>35.3</td>
<td>-33%</td>
</tr>
<tr>
<td><strong>Total Dividend Per Share (pence)</strong></td>
<td>11.9</td>
<td>17.6</td>
<td></td>
</tr>
</tbody>
</table>

(1) Net settlement of Community Energy Saving Programme
## Drax Power – Gross Profit

### In £m (unless otherwise stated)

<table>
<thead>
<tr>
<th></th>
<th>2014</th>
<th>2013</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue(^{(1)})</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power Sales</td>
<td>2,080</td>
<td>1,669</td>
<td></td>
</tr>
<tr>
<td>ROC/LEC Sales</td>
<td>315</td>
<td>63</td>
<td></td>
</tr>
<tr>
<td>Ancillary Services Income</td>
<td>13</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Other Income(^{(2)})</td>
<td>42</td>
<td>36</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>2,450</td>
<td>1,780</td>
<td>38%</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Generation Fuel Costs</td>
<td>(1,076)</td>
<td>(842)</td>
<td></td>
</tr>
<tr>
<td>ROC/LEC Support</td>
<td>359</td>
<td>144</td>
<td></td>
</tr>
<tr>
<td>Carbon Tax</td>
<td>(118)</td>
<td>(62)</td>
<td></td>
</tr>
<tr>
<td>Cost of Carbon Allowances</td>
<td>(76)</td>
<td>(124)</td>
<td></td>
</tr>
<tr>
<td>ROCs/LECs Sold or Utilised</td>
<td>(314)</td>
<td>(62)</td>
<td></td>
</tr>
<tr>
<td>Cost of Power Purchases</td>
<td>(710)</td>
<td>(334)</td>
<td></td>
</tr>
<tr>
<td>Grid Charges</td>
<td>(82)</td>
<td>(70)</td>
<td></td>
</tr>
<tr>
<td><strong>Total Cost of Sales</strong></td>
<td>(2,017)</td>
<td>(1,350)</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>433</td>
<td>430</td>
<td>1%</td>
</tr>
</tbody>
</table>

### Notes

1. **Includes sales to Haven Power of £735m (2013: £468m)**
2. **Includes £34m for fuel sales (2013: £28m)**

- **Increases in net sales volume and average achieved price**
  - 2014: 26.7TWh / £51.3/MWh
  - 2013: 26.2TWh / £51.0/MWh

- **Cost of coal and biomass**
  - 2014: £40.3/MWh
  - 2013: £32.1/MWh

- **Value of ROC/LECs generated in period is deducted from fuel costs in respect of generation**
  - 2014: £45.2/MWh
  - 2013: £49.6/MWh

- **Carbon tax payable from April 2013**
  - 2014/15 charge £10/t (2013/14: £5/t)

- **Lower number of allowances expensed at lower average price**
  - 2014: 16.6m / £4.6/t
  - 2013: 20.3m / £6.1/t
# Haven Power – Gross Profit

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>2014</th>
<th>2013</th>
<th>% Year-on-Year</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td>1,090</td>
<td>751</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Cost of Sales</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Power Purchases</td>
<td>(629)</td>
<td>(455)</td>
<td></td>
</tr>
<tr>
<td>Grid Charges</td>
<td>(253)</td>
<td>(168)</td>
<td></td>
</tr>
<tr>
<td>Other Retail Costs</td>
<td>(191)</td>
<td>(112)</td>
<td></td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>17</td>
<td>16</td>
<td>6%</td>
</tr>
</tbody>
</table>

- Retail sales (at customer meter)
  - 2014: 11.8TWh (£92.4/MWh)
  - 2013: 8.1TWh (£92.7/MWh)

- Increasing power purchases reflects sales growth, at a slightly lower cost per MWh
  - 2014: £53.3/MWh
  - 2013: £56.2/MWh

- Distribution, transmission and system balancing, increasing in part due to increasing intermittent generation in the UK

- Increasing cost of Renewables Obligation, Feed-in-Tariffs and LECs
Group Operating Costs

Operating costs – £220m in 2014

2014 total operating cost increase £5m in line with guidance
- Investment in growth (US business, CCS): +£11m
- Underlying cost inflation: +£7m (3%)
- Single outage year: -£13m

2015 operating cost guidance: £240m
- Start of US operations: +£17m
- Tight cost control – underlying costs: +£3m
Group Capital Expenditure

On track to deliver biomass transformation in line with original cost guidance

£650m - £700m
• 3 unit conversions, US pellet investments and IED\(^{(1)}\) compliance

2014 total capex £201m

2015 total capex guidance c.£150m

Evaluating further investments in:
• Potential 3\(^{rd}\) US Gulf pellet plant
• US East coast pellet operations
• Carbon Capture and Storage

(1) IED = Industrial Emissions Directive
Group Cash Flow

2014 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>(£58m)</td>
<td>(£45m)</td>
<td>(£14m)</td>
<td>(£200m)</td>
<td>(£55m)</td>
<td>£221m</td>
</tr>
</tbody>
</table>

- Biomass stocks increase £39m
  0.3Mt increase to 0.6Mt
- Other outflow £19m
- Increase in receivables
  (Retail growth)
- Increase in ROCs / LECs
- Payments in respect of 2013/14 £16m
- Net of repayment in respect of 2012 credit £2m
- Cash payments for capex
- Final 2013 dividend of 8.9p/share
- Interim 2014 dividend of 4.7p/share
- Net debt after borrowings £99m
Financing, Working Capital and Distributions

Debt facilities

Loans
- M&G (2012): £100m term loan
- GIB\(^{(1)}\): £50m term loan
- Friends Life: £75m term loan
  - Underpinned by guarantee from I-UK\(^{(2)}\)
- M&G (2014): £100m loan

Other facilities
- £400m working capital and LC\(^{(3)}\) facility
  - Extended to mature in April 2017
- Commodity trading line

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

Future financing
- Evaluating options to optimise financing

Cash flow management

Additional ROC monetisation agreements
- Total agreements of £200m now in place

Distributions

Regulatory clarity remains the key driver of decisions on future capital structure and distribution policy

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\(^{(1)}\) GIB = UK Green Investment Bank
\(^{(2)}\) I-UK = Infrastructure UK
\(^{(3)}\) LC = Letter of Credit
# 2015 Guidance

### Guidance Summary

<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>• Depreciation: c.£100m-£105m</td>
<td>• 50% of underlying profit after tax</td>
<td>• March 2015: Amite COD(^{(1)})</td>
<td>• Q3 2015: 3(^{rd}) unit high biomass burn</td>
</tr>
<tr>
<td>• Net interest: similar to 2014</td>
<td></td>
<td>• June 2015: Morehouse COD</td>
<td></td>
</tr>
<tr>
<td>• Effective tax rate: close to corporation tax rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Group Opex: c.£240m</td>
<td></td>
<td></td>
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<tr>
<td>• Group Capex: c.£150m</td>
<td></td>
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</table>

### Additional Notes
- COD = Commercial Operations Date

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\(^{(1)}\) Dome Storage at Drax Power Station
Financial Review Summary

2014 performance
• Regulatory disappointments, weak commodity markets
• Solid financial performance
• Good operations
• Robust balance sheet

2015 outlook
• Current earnings outlook reflects weak commodity markets

Biomass transformation
• Investment on schedule and within budget
• Creating stronger, more resilient business

Biomass Infrastructure at Drax
## Transformation Milestones Update

Dorothy Thompson – Chief Executive

<table>
<thead>
<tr>
<th>Area</th>
<th>Milestone</th>
<th>Original Target</th>
<th>Update</th>
<th>Progress</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Unit conversions</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st unit</td>
<td></td>
<td>2013</td>
<td>Q2 2013</td>
<td>✓</td>
</tr>
<tr>
<td>2nd unit</td>
<td></td>
<td>2014</td>
<td>Q4 2014&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>✓</td>
</tr>
<tr>
<td>3rd unit</td>
<td></td>
<td>2016</td>
<td>2015/2016</td>
<td>On track</td>
</tr>
<tr>
<td><strong>Biomass sourcing</strong></td>
<td></td>
<td>2016/17 ROC year&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>2016/17 ROC year</td>
<td>On Track</td>
</tr>
<tr>
<td>6Mt of sustainable fuel secured</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>US investments</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amite COD&lt;sup&gt;(3)&lt;/sup&gt; (6 months to full capacity)</td>
<td>Winter 2014/15</td>
<td>Q1 2015</td>
<td>On Track</td>
<td></td>
</tr>
<tr>
<td>Morehouse COD (6 months to full capacity)</td>
<td>Winter 2014/15</td>
<td>Q2 2015</td>
<td>On Track</td>
<td></td>
</tr>
<tr>
<td>Baton Rouge COD</td>
<td>Winter 2014/15</td>
<td>Q1 2015</td>
<td>On Track</td>
<td></td>
</tr>
<tr>
<td><strong>UK infrastructure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Port throughput 6Mt pa</td>
<td>2015/16 ROC year</td>
<td>Q4 2014</td>
<td>✓</td>
<td></td>
</tr>
<tr>
<td>Rail wagons - 150 operational</td>
<td>Q1 2015</td>
<td>Q4 2014</td>
<td>✓&lt;sup&gt;(4)&lt;/sup&gt;</td>
<td></td>
</tr>
<tr>
<td><strong>Drax site</strong></td>
<td></td>
<td></td>
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<tr>
<td>Fuel distribution systems</td>
<td>November 2013</td>
<td>Q4 2013</td>
<td>✓</td>
<td></td>
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<tr>
<td>Delivery and storage (1st unit)</td>
<td>December 2013</td>
<td>Q4 2013</td>
<td>✓</td>
<td></td>
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<tr>
<td>Storage for all three units</td>
<td>Q4 2014</td>
<td>Q4 2014</td>
<td>✓</td>
<td></td>
</tr>
</tbody>
</table>

<sup>(1)</sup> Second biomass unit operated as enhanced co-firing unit from May 2014

<sup>(2)</sup> ROC year = April to March

<sup>(3)</sup> COD = Commercial Operations Date

<sup>(4)</sup> 200 rail wagons operational by Q1 2015

Drax Group plc
Completing the Transformation

2015 – 3 biomass units
- 3rd unit high biomass burn from Q3 2015
  - EU State aid clearance process underway
  - Early CFD commissioning window July 2015 to July 2016
- US construction complete and facilities operational
- > 6Mt pa UK port and rail facilities in operation
  - 1st Immingham facility operational Q2 2015

2016 – 3 unit transformation complete
- 3 converted units – with fuel supply secure
- UK port and rail facilities – targeting capacity c.10Mt pa by Q4 2016
  - Additional capacity provides operational flexibility and supply chain security
  - 2nd Immingham development and other facilities under construction

(1) ECF = Enhanced Co-firing
Benefits of Biomass Conversion

Carbon Savings
- 12Mt pa CO₂ is equivalent to removing 3.3m cars from the roads or 1,750 new onshore wind turbines\(^1\)
- Subsidy cost £50-60/t CO₂ from conversion compared to £200/t offshore wind\(^2\)

Dependable electricity
- Performance standards of coal – but low carbon
- Reliable – not dependent on wind or sun
- Flexible – vary output to meet changes in demand
- Responsive – synchronised to network needs

No hidden costs
- No need for back up power
- No need for new grid connections
- No need for additional system stability measures

Differences in Cost: Biomass and Offshore Wind in 2020

System costs for 3 Drax units would be £3bn less than equivalent offshore wind generation in 2020

Source: Frontier Economics – The Relative System Cost of Biomass and Offshore Wind, November 2014

---

1) 3MW wind turbines with 30% load factor
2) Ministerial response to Parliamentary Question / DECC Bioenergy Strategy 2012
Financial Benefits of Biomass Conversion

Protecting the business

Major carbon savings

Structural erosion of coal spreads
• Increasing cost of UK carbon tax

Biomass investment has delivered earnings protection vs. coal-only alternative

Illustration of Biomass Impact on 2013 / 2014 EBITDA

Drax as a coal-only generator
Drax as a biomass and coal generator

EBITDA

2013 2014

2013 2014

EBITDA as a coal-only business
EBITDA as a biomass and coal business
Conclusion

2014 was a very challenging year

Significant regulatory headwinds

Major deterioration in commodity markets

But we have made good progress

Foundations laid for a much stronger business

Three unit conversion on schedule and budget

Expect value of biomass to Drax and UK to become increasingly evident

Cost effective low carbon renewable energy

Major carbon savings

Electricity system stability

*Predominantly renewable power provider*
Appendix
Appendices

1. Definitions
2. Tax Reconciliation
3. 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
# Appendix 1: Definitions

<table>
<thead>
<tr>
<th>Abbreviation</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 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.</td>
</tr>
<tr>
<td>DECC</td>
<td>DEPARTMENT FOR ENERGY AND CLIMATE CHANGE</td>
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<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>
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<tr>
<td>ELV</td>
<td>EMISSION LIMIT VALUES</td>
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<td>EUA</td>
<td>EU ALLOWANCE</td>
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<td>EU ETS</td>
<td>EU EMISSIONS TRADING SCHEME</td>
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<tr>
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<td>INTERCONNECTOR UK</td>
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<td>LCPD</td>
<td>LARGE COMBUSTION PLANT DIRECTIVE</td>
</tr>
<tr>
<td>LEC</td>
<td>LEVY EXEMPTION CERTIFICATE</td>
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### Appendix 1: Definitions (cont.)

<table>
<thead>
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<th>Acronym</th>
<th>Definition</th>
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<tr>
<td>LNG</td>
<td>LIQUIFIED NATURAL GAS</td>
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<tr>
<td>LTIR</td>
<td>LOST TIME INJURY RATE</td>
</tr>
<tr>
<td>NERP</td>
<td>NATIONAL EMISSIONS REDUCTION PLAN</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>ADVANCED 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</td>
</tr>
<tr>
<td>ROC</td>
<td>RENEWABLES OBLIGATION CERTIFICATE</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>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>UKCS</td>
<td>UK CONTINENTAL SHELF</td>
</tr>
<tr>
<td>UK NAP</td>
<td>UK NATIONAL ALLOCATION PLAN</td>
</tr>
</tbody>
</table>

---

Drax Group plc
Appendix 2: Tax Reconciliation

UK corporation tax (CT) rates
• 21.5% for 2014 and 23.25% for 2013

2014 tax rate
• Underlying tax rate 20%
• Underlying rate excludes after tax impact of exceptional item\(^{(1)}\) and unrealised gains and losses on derivative contracts
• 2013 tax credit included £22 million for impact of tax rate changes and £7m in respect of R&D claims agreed with HMRC

<table>
<thead>
<tr>
<th></th>
<th>Reported</th>
<th>Underlying</th>
</tr>
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<tbody>
<tr>
<td><strong>In £m (unless otherwise stated)</strong></td>
<td>2014</td>
<td>2013</td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>166</td>
<td>32</td>
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<tr>
<td>Tax at UK CT Rate</td>
<td>35</td>
<td>7</td>
</tr>
<tr>
<td>Adjustment to Prior Year Taxes and Other Items</td>
<td>2</td>
<td>(27)</td>
</tr>
<tr>
<td>Tax Charge / (Credit)</td>
<td>37</td>
<td>(20)</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>22%</td>
<td>n/a</td>
</tr>
</tbody>
</table>

\(^{(1)}\) Net settlement of Community Energy Saving Programme Obligation
Appendix 3: ROC Reporting

Balance sheet reconciliation

- ROC/LECs generated – estimated benefit of generating electricity with biomass
- Sold or utilised – original estimated balance sheet value charged to cost of sales on subsequent sale of ROC/LECs
- Value at balance sheet date – estimate of cumulative ROC/LEC value generated not sold

<table>
<thead>
<tr>
<th>2014 Balance Sheet – ROC and LEC Assets</th>
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</thead>
<tbody>
<tr>
<td>ROC and LEC Assets</td>
</tr>
<tr>
<td>At 31 December 2013</td>
</tr>
<tr>
<td>ROCs/LECs Generated</td>
</tr>
<tr>
<td>Purchased</td>
</tr>
<tr>
<td>Sold or Utilised</td>
</tr>
<tr>
<td>At 31 December 2014</td>
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# Appendix 4: Financial Calendar

<table>
<thead>
<tr>
<th>Event</th>
<th>Date</th>
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<tbody>
<tr>
<td>Interim Management Statement</td>
<td>Mid May</td>
</tr>
<tr>
<td>Financial Half Year End</td>
<td>30 June 2015</td>
</tr>
<tr>
<td>Announcement of Half Year Results</td>
<td>28 July 2015</td>
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## Appendix 5: IAS 39 Treatment

<table>
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<tr>
<th>Financial Instrument</th>
<th>Location of Gains and Losses in the Annual Report</th>
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<tbody>
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<td>Power</td>
<td>Hedge Reserve</td>
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<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 weaker in 2014 – driven by gas market

Dispatch dynamics

Plant efficiencies significant factor in load profile
- Different load factors for same fuel plant
- Low GSS resulted in gas plant capacity withdrawn / considered for closure
- All opted-out coal plant now closed
  - Ironbridge converted to biomass until Dec-15
- Oil-fired plant closing prior to full utilisation of running hours
  - Littlebrook announced Apr-15 closure

Wind capacity / output continues to grow

(1) DGS = dark green spread, GSS = green spark spread
Sources for chart: Spectron, Brokered Data, Drax assumptions
Based on market prices on 20th February 2015
Appendix 7: Gas Market

Dramatic fall in oil prices to six year low
- Driven by over supply
- Increased US shale production
- OPEC unwilling to give up market share
- Lower oil prices filtering through to lower gas contracts with an oil-indexation element

LNG prices under pressure
- Spread between Asia and Europe narrowing
- Europe has become more competitive, resulting in year on year increase in LNG deliveries to UK
- Japanese nuclear remain constrained (a limited number returning in 2015)

Mild weather and high levels of storage
- Healthy supplies coupled with a mild winter and falling oil has resulted in a fall in UK gas prices
Appendix 8: Coal Market

Prompt API2 prices sub $60/t
- Seaborne market remains oversupplied
- Producers in 2014 continued to look to cut unit costs/improve margins
  - Strong USD offered support for exporters
- Lower global freight prices
  - Capesize Colombia to Rotterdam route fell from $13/t to $6/t in 2014

China imports continue to slow – India now the growth focus
- Chinese imports fell 14% year on year in 2014
- Chinese stocks remain high
- Introduction of import tax of 5-6% on steam coal
- Indian demand continues to grow – up 19% in 2014

UK domestic coal production under pressure from low international prices
- Indigenous production fell 14% in 2014 (Q3 to Q3)
- Last deep mine expected to close in 2016

Source: Digest of UK Energy Statistics (DUKES)
Appendix 9: Carbon Market

European market remains oversupplied

Phase III EU ETS – recovery from 2013 lows
- Back-loading now approved
  - 900Mt removed between 2014 – 2016
  - Reintroduced back end of decade
- All 2014 free allowances issued

EU continue to review 2030 European Climate and Energy Policy Framework
- Challenge remains to get all member states to agree targets
- Market Stability Reserve
  - Mechanism proposed by European Commission designed to control supply of EUAs in the market
  - Still to be agreed

Carbon Prices

Source: ICE ECX
Prices as of 20th February 2015
Appendix 10: Forward Spread Movements

Source: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread – 49%
Prices as of 20th Feb 2015
Appendix 11: Commodity Price Movements

**Power Prices**
- Sources: Brokered Trades, Spectron

**UK NBP Gas Price**
- Source: Spectron

**Coal Prices (API 2)**
- Source: McCloskeys, Brokered Trades

**Carbon Prices**
- Source: ICE ECX

Prices as of 20th Feb 2015
### Appendix 12: LCPD and IED

<table>
<thead>
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<td>Drax</td>
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<td>1940</td>
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<td>Ratcliffe</td>
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<td>Ironbridge</td>
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<td>970</td>
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<td>26%</td>
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<td>Rugeley</td>
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<td>996</td>
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<td><strong>Total</strong></td>
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<td><strong>19899</strong></td>
<td><strong>11402</strong></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Elexon, Oxera, Drax data as at January 2015  
* RWE previously 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 CO₂ 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 CO₂; equivalent to c.£12/tonne coal
- For 2014/15 this is c. £10/tonne CO₂; equivalent to c.£23/tonne coal
- For 2015/16 this is £18/tonne CO₂; equivalent to c.£43/tonne coal

**2013/14 Budget**

- Tax held constant at 2015/16 level for a further four years