Agenda

Operations and Business Review

Dorothy Thompson  
Chief Executive

Financial Review

Will Gardiner  
Chief Financial Officer

The Opportunity for Drax

Dorothy Thompson
A Leading Provider of Renewable Energy

Generation

- c.70% of generation from renewable energy
- c.20% of UK’s renewable electricity
- Reducing commodity market dependency

Retail

- Sales target achieved, improving profitability

Biomass Production & Supply

- Exploring options for growth

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<table>
<thead>
<tr>
<th>EBITDA</th>
<th>£70m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Underlying Earnings Per Share</td>
<td>4.2p</td>
</tr>
<tr>
<td>Interim Dividend</td>
<td>2.1p/share (£8m)</td>
</tr>
</tbody>
</table>
Operations and Business Review
Safe and Sustainable Business

Safety

Maintaining very good safety performance
- Strong Group performance
- TRIR\(^{(1)}\) – 0.17 (H1 2015: 0.33)
- Consistently a top quartile performer

Sustainability

Proven carbon abatement\(^{(2)}\)
- Well established sustainability policy
  - Strong governance and audit process

Sustainable Biomass Partnership
- Global sustainability standard launched in 2015
  - 29 suppliers / traders certified
  - Further 80 applications for certification received

Major reduction in NOx emissions
- Biomass generation and NOx abatement strategy
  - 60% reduction vs. H1 2015

Drax Sustainability Principles

1. Never work in countries that lack regulation
2. Never cause deforestation
3. Never source from areas that are protected
4. Only take wood from working forests that grow back and stay as forests
5. Require all suppliers to pass tough screening and sustainability audits, conducted by independent auditors

1) TRIR = Total Recordable Injury Rate
2) Life cycle saving = 80% vs. coal and 60% vs. gas, UK Solid & Gaseous Biomass Carbon Calculator, Ofgem
New Realities for Electricity Markets

Changing generation dynamics

Growth of renewables
• Increasing intermittent generation

8GW coal plant closures 2015-2016

Capacity market & SBR\(^{(1)}\)

Changing wholesale price dynamics

Renewables reducing merchant spreads
Capacity contracts depressing scarcity pricing

Growing system support market

Capacity bid market increasing

National Grid system support
• Ancillary Services
  - Reduction in providers for some critical services
• More extreme balancing pricing
• Market opportunity to double
  - c.£2bn by 2020

Sources: National Grid Outlook Reports and Future Energy Scenarios

1) SBR = Supplemental Balancing Reserve
Commodity Markets Context

Markets remain challenging

Gas – potential for oversupply
• Global LNG capacity growing
  - Peak supply expected 2017/18
• Improved UK price outlook for 2016
  - Near-term storage issues
  - Coal-to-gas switching adding demand

UK power price – key drivers
• Gas remains predominant price setter
• Market now pricing in winter capacity concerns

Sources: Brokered Trades, Spectron
Prices as at 17th July 2016
Providing c.20% of UK Renewable Electricity

Biomass

c.70% of generation from renewable energy
• Reliable, responsive generation

Biomass operations performing well
• Unit on planned major outage

Supply chain working well
• Operational flexibility and security

Stand ready to convert further units

Coal

Revised coal strategy
• Reducing operational and maintenance costs
  - Balance of risk and return
  - Restricted running on one unit post outage in 2017

Flexible operations

Supporting grid security and stability
• New Ancillary Services contract
Sales volume target achieved

**Haven sales 7.2TWh (H1 2015: 6.8TWh)**
- Credit-efficient route to market
- Skilled manager of power price risk
- c.14TWh contracted for next 12 months
- Sales of £643m (H1 2015: £629m)

**H1 2016 performance**
- Good delivery on large contracts
- Strong I&C\(^{(1)}\) renewal performance maintained
- Credit quality remains good with low bad debt experience
- Consistently strong service performance

**Looking ahead**
- Focus on higher margin SME market\(^{(2)}\)
- Options for further margin enhancement
  - Market segments, product alternatives and efficiency enhancement

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1) I&C = Industrial and Commercial
2) SME = Small and Medium Enterprise
Major Producer of Compressed Wood Pellets

Existing US operations working well

Port facility
- Good operations

Pellet plants
- Production in line with plan
- Optimising fibre usage and pellet production
  - Fibre cost, pellet quality and profitability
- Providing supply chain flexibility

Supply chain developments

Significant benefits of self-supply
- Targeting 20-25% of required generation

Assessing further opportunities
- Pursuing 3rd party supply contracts
Regulatory Horizons

New government

New opportunity to make the case

Biomass

CfD – State aid
• Consultation complete – awaiting final decision

CMA recommendations
• Technology neutral competition in future CfD auctions

Most affordable large scale renewable
• Awaiting whole system cost analysis by DBEIS\(^{(1)}\)

Coal

Consultation on closure of coal by 2025
• Uncertainty leading to review of operating regime
• Challenging in context of security of supply

\(^{(1)}\) DBEIS = Department for Business, Energy & Industrial Strategy
Financial Review

Will Gardiner
## H1 2016 Financial Highlights

<table>
<thead>
<tr>
<th>Category</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EBITDA</strong></td>
<td>£70m (H1 2015: £120m)</td>
</tr>
<tr>
<td><strong>Net Debt</strong></td>
<td>£85m (December 2015: £187m)</td>
</tr>
<tr>
<td><strong>Underlying EPS</strong></td>
<td>4.2p (H1 2015: 10.2p)</td>
</tr>
<tr>
<td><strong>Interim Dividend</strong></td>
<td>2.1p (£8m) (H1 2015: 5.1p, £21m)</td>
</tr>
</tbody>
</table>

### H1 2016

**Good performance in a tough environment**

- Challenging commodity markets
- Impact of LEC removal
- Growth of Ancillary Services
- Good balancing market performance
- Improved retail and biomass supply profitability
- Strong cost and cash control

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1) Excludes unrealised gains on derivative contracts of £163m and associated tax
2) Cash and short-term investments of £235m less borrowings of £320m

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Drax Group plc
1) Generation Margin includes net revenue (including sales to Haven Power), net fuel cost (cost of coal and biomass, less ROC and LEC support) and carbon (EU ETS and UK carbon tax)
2) Other Margin includes Retail and Biomass Supply

Tabular EBITDA and gross profit analysis included in Appendix 3, 4 and 5
Drax added c.£25m of additional revenues in H1 2016

Source: Elexon
Improved Quality of Earnings

Coal generation

Focus on short-term markets

- Limited power hedge
  - Weak forward prices
  - Lower level of generation
  - Reduced reliance on margins
- Potential upside if margins improve
  - Limited downside from current position
- Other benefits
  - Lower inventory requirements
  - Advantage fuels

Biomass generation

Fuel

- Long-term fixed formula contracts
- Rolling five year FX hedges

ROC units – strong hedge

- Power sold forward 3-4 seasons
- Gas hedges provide additional longer term sales
  - Retains upside from market tightness
- Forward power sales cover biomass generation through 2017

CfD unit – additional hedge for one unit

- Government backed, indexed contract revenues

Operational risk remains – coal and biomass

<table>
<thead>
<tr>
<th>Group Power Sales Contracted at 18th July 2016</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power Sales – TWh</td>
<td>20.6</td>
<td>13.2</td>
</tr>
</tbody>
</table>

Comprising:

- Fixed Price TWh 18.2 @ 46.6 9.5 @ 43.2
- Gas Hedges TWh 2.4 3.7
- p/therm 49.9 48.6
Increasingly Stable Earnings Profile

Broader earnings streams, lower volatility and contract based revenues

Illustrative Historic Earnings

- Spread
  - Coal generation

Other
- Ancillary Services

Illustrative Future Earnings

- Spread
  - Coal and ROC generation

Other
- CfD generation
- Ancillary services
- Capacity payments
- Retail
- Biomass production and pellet supply
Adapting Costs to the Operating Environment

Operating costs £112m in H1 2016
- Decrease of £2m vs. H1 2015
  - Includes major outage in H1 2016

FY 2016 guidance £230m - c.£240m
- Increase in US operations: +£5m
- Two major planned outages: +£10m
- Cost savings: -£20m

Optimisation and efficiencies
- Revised coal strategy
  - Reduced outage cost and generation
- Lean Management implementation
Group Cash Flow & Working Capital Management

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opening Cash</td>
<td>134</td>
</tr>
<tr>
<td>EBITDA</td>
<td>70</td>
</tr>
<tr>
<td>Working Capital / Other</td>
<td>88</td>
</tr>
<tr>
<td>Tax</td>
<td>2</td>
</tr>
<tr>
<td>Capex Payments</td>
<td>(48)</td>
</tr>
<tr>
<td>Debt Service</td>
<td>(9)</td>
</tr>
<tr>
<td>Dividends</td>
<td>(2)</td>
</tr>
<tr>
<td>Closing Cash</td>
<td>235</td>
</tr>
</tbody>
</table>

Net Debt
- Opening Cash: £187m
- Closing Cash: £85m

1) Cash and cash equivalents plus short-term investments
Biomass transformation will be delivered in 2016 – in line with original cost guidance

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

Capex – £38m in H1 2016

2016 total capex guidance c.£80m - c.£100m
• Includes IED compliance and biomass optimisation

\(^{(1)}\) IED = Industrial Emissions Directive
Strong Financing & Risk Management

Debt facilities

£325m of term loans
• Smooth repayment profile

£400m working capital and LC\(^{(1)}\) facility
• Refinanced December 2015 – matures in 2019
• Improved pricing

Commodity trading line

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

Significant MtM movement post Brexit – £163m
• Reflects effective commodity and FX hedging strategy

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1) LC = Letter of Credit
2) GIB = UK Green Investment Bank
3) Underpinned by Infrastructure UK guarantee
Financial Summary and Outlook

Good operational performance in a tough environment
• Challenging commodity markets
• Impact of LEC removal
• Growth of Ancillary Services
• Good balancing market performance
• Improved retail and biomass supply profitability
• Strong cost and cash control

H2 2016 outlook
• Full year EBITDA subject to CfD award – expected Autumn

Further ahead
• Hedging strategy providing greater visibility
• Broader, higher quality earnings streams
• Opportunities for growth
The Opportunity for Drax

Biomass supply
Major producer of compressed wood pellets
- Assessing supply chain opportunities
  - Ambition for 20-25% of generation requirement from self-supply
  - Sales to third parties

Biomass generation
Secure, affordable and clean electricity
- Ready to convert further units

System support & security of supply
Enabler of transition to low carbon generation
- Reliable, responsive and flexible generation
Evaluating capacity market options

Retail
Supplier of power and renewable products with emphasis on customer service
- Challenger retailer opportunities
Questions
Appendices

1. Definitions
2. IAS 39 Treatment
3. Group Income Statement
4. Generation – Gross Profit
5. Retail – Gross Profit
6. ROC Reporting
7. Tax Reconciliation
8. 2016 Financial Guidance
9. Power Market
10. Gas Market
11. Coal Market
12. Carbon Market
13. Forward Spread Movements
14. Commodity Price Movements
15. Coal Capacity and IED

Dust Extraction System
## 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>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>COP21</td>
<td>The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental agreement on climate change. They are holding their 21st annual Conference of the Parties (COP) in Paris from November 30th to December 11th 2015. This Climate Conference is more commonly known as COP21.</td>
</tr>
<tr>
<td>CCL</td>
<td>A tax on electricity delivered to non domestic users, intended to encourage energy efficiency and reduced carbon emissions.</td>
</tr>
<tr>
<td>DECC</td>
<td>Department for Business, Energy &amp; Industrial Strategy</td>
</tr>
<tr>
<td>EBITDA</td>
<td>Profit before interest, tax, depreciation (including asset obsolescence charges and losses on disposals), amortisation and unrealised gains on derivative contracts.</td>
</tr>
<tr>
<td>ELV</td>
<td>One of the mechanisms available to implement the LCPD. This sets annual limits on the emissions of NO(_X), SO(_2) and particulate which will be incorporated into the forthcoming PPC permit.</td>
</tr>
<tr>
<td>IED</td>
<td>Industrial Emissions Directive</td>
</tr>
<tr>
<td>EUA</td>
<td>European Union Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO(_2).</td>
</tr>
<tr>
<td>EU ETS</td>
<td>EU Emissions Trading Scheme</td>
</tr>
<tr>
<td>EU ETS</td>
<td>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.</td>
</tr>
<tr>
<td>IUK</td>
<td>Interconnector UK</td>
</tr>
<tr>
<td>IUK</td>
<td>Sub sea gas pipeline and terminal facilities providing a bi-directional link between the UK and continental European energy markets.</td>
</tr>
<tr>
<td>LCPD</td>
<td>Large Combustion Plant Directive</td>
</tr>
<tr>
<td>LCPD</td>
<td>European Union Large Combustion Plant Directive sets emission standards for NO(_X), SO(_2) and particulate from all Large Combustion Plant (&gt;50MW).</td>
</tr>
<tr>
<td>LEC</td>
<td>Levy Exemption Certificate</td>
</tr>
<tr>
<td>LEC</td>
<td>Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.</td>
</tr>
</tbody>
</table>
### Appendix 1: Definitions (cont.)

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Definition</th>
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</thead>
<tbody>
<tr>
<td>LNG</td>
<td>LIQUIFIED NATURAL GAS</td>
</tr>
<tr>
<td>LTIR</td>
<td>LOST TIME INJURY RATE The frequency rate calculated on the following basis (number of accidents/hours worked * 100,000). Accidents are defined as occurrences where the injured party is absent from work for more than 24 hours.</td>
</tr>
<tr>
<td>NERP</td>
<td>NATIONAL EMISSIONS REDUCTION PLAN One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO(_x), SO(_2) and particulate which will be incorporated into the forthcoming PPC permit.</td>
</tr>
<tr>
<td>NO(_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>ADVANTAGED FUELS</td>
<td>Fuel that gives a price advantage against standard bituminous coals. Such fuels include off specification coals and pet coke.</td>
</tr>
<tr>
<td>RO</td>
<td>RENEWABLES OBLIGATION 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 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>SNCR</td>
<td>SELECTIVE NON CATALYTIC REDUCTION Injection of urea into a units boiler to react with flue gases leading to a reduction in nitrogen oxides.</td>
</tr>
<tr>
<td>SBP</td>
<td>SUSTAINABLE BIOMASS PARTNERSHIP The Sustainable Biomass Partnership (SBP) is an industry-led initiative formed by major European utilities that use biomass, mostly in the form of wood pellets, in large thermal power plants.</td>
</tr>
<tr>
<td>SBR</td>
<td>SUPPLEMENTAL BALANCING RESERVE Contract with plant which would otherwise have closed, mothballed, or have been unavailable to the market and which can be called on by National Grid as a last resort after all commercial balancing actions have been taken.</td>
</tr>
<tr>
<td>SO(_2)</td>
<td>Sulphur dioxide, emissions of which are regulated under the LCPD.</td>
</tr>
<tr>
<td>TRIR</td>
<td>TOTAL RECORDABLE INJURY RATE 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 Gas reserves found off shore in UK waters.</td>
</tr>
<tr>
<td>UK NAP</td>
<td>UK NATIONAL ALLOCATION PLAN Allocation of UK emissions allowances at the national level to individual sites under EU ETS.</td>
</tr>
</tbody>
</table>
### Appendix 2: IAS 39 Treatment

<table>
<thead>
<tr>
<th>Financial Instrument</th>
<th>Location of Gains and Losses in the Half Year Report</th>
</tr>
</thead>
<tbody>
<tr>
<td>Power</td>
<td>Hedge Reserve</td>
</tr>
<tr>
<td>International Coal</td>
<td>Hedge Reserve and Income Statement</td>
</tr>
<tr>
<td>Financial Coal</td>
<td>Largely Hedge Reserve</td>
</tr>
<tr>
<td>Foreign Exchange</td>
<td>Hedge Reserve and Income Statement</td>
</tr>
<tr>
<td>Carbon</td>
<td>Hedge Reserve</td>
</tr>
<tr>
<td>Gas</td>
<td>Income Statement</td>
</tr>
<tr>
<td>Oil</td>
<td>Income Statement</td>
</tr>
<tr>
<td>Freight</td>
<td>Income Statement</td>
</tr>
</tbody>
</table>
## Appendix 3: Group Income Statement

<table>
<thead>
<tr>
<th>In £m</th>
<th>H1 2016</th>
<th>H1 2015</th>
<th>▲%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>1,487</td>
<td>1,511</td>
<td></td>
</tr>
<tr>
<td>Cost of Sales</td>
<td>(1,305)</td>
<td>(1,277)</td>
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</tr>
<tr>
<td>Gross Margin</td>
<td>182</td>
<td>234</td>
<td></td>
</tr>
<tr>
<td>Operating Costs</td>
<td>(112)</td>
<td>(114)</td>
<td></td>
</tr>
<tr>
<td>EBITDA</td>
<td>70</td>
<td>120</td>
<td>(42)%</td>
</tr>
<tr>
<td>IAS39 Unrealised Gains / (Losses) on Derivative Contracts</td>
<td>163</td>
<td>(3)</td>
<td></td>
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<tr>
<td>Depreciation</td>
<td>(52)</td>
<td>(50)</td>
<td></td>
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<tr>
<td>Operating Profit</td>
<td>181</td>
<td>67</td>
<td></td>
</tr>
<tr>
<td>Net Finance Credit / (Cost)</td>
<td>3</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>Profit Before Tax</td>
<td>184</td>
<td>53</td>
<td></td>
</tr>
<tr>
<td>Tax Charge</td>
<td>(35)</td>
<td>(14)</td>
<td></td>
</tr>
<tr>
<td>Reported Earnings</td>
<td>149</td>
<td>39</td>
<td></td>
</tr>
<tr>
<td>Underlying Earnings</td>
<td>17</td>
<td>41</td>
<td>(59)%</td>
</tr>
<tr>
<td>Reported Basic Earnings Per Share (pence)</td>
<td>36.6</td>
<td>9.6</td>
<td></td>
</tr>
<tr>
<td>Underlying Basic Earnings Per Share (pence)</td>
<td>4.2</td>
<td>10.2</td>
<td>(59)%</td>
</tr>
<tr>
<td>Total Dividend Per Share (pence)</td>
<td>2.1</td>
<td>5.1</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 4: Generation – Gross Profit

<table>
<thead>
<tr>
<th>In £m</th>
<th>H1 2016</th>
<th>H1 2015</th>
<th>▲%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Revenue</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Power Sales</td>
<td>970</td>
<td>1,090</td>
<td></td>
</tr>
<tr>
<td>ROC/LEC Sales</td>
<td>190</td>
<td>145</td>
<td></td>
</tr>
<tr>
<td>Ancillary Services Income</td>
<td>20</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Fuel Sales</td>
<td>-</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Other Income</td>
<td>2</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>1,182</td>
<td>1,246</td>
<td>(5)%</td>
</tr>
</tbody>
</table>

| **Cost of Sales** |         |         |    |
| Generation Fuel Costs | (583) | (574)  |    |
| Fuel Sold         | -       | -       |    |
| ROC/LEC Support   | 316     | 241     |    |
| Carbon Tax        | (52)    | (75)    |    |
| Cost of Carbon Allowances | (16) | (33)  |    |
| ROCs/LECs Sold or Utilised | (190) | (144) |    |
| Cost of Power Purchases | (457) | (391)  |    |
| Grid Charges      | (33)    | (42)    |    |
| **Total Cost of Sales** | (1,015) | (1,018) | 0% |

| **Gross Profit** | 167 | 228 | (27)% |

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1) Includes sales to Haven Power of £339m (H1 2015: £364m)
2) Excludes cost of fuel sales
## Appendix 5: Retail – Gross Profit

<table>
<thead>
<tr>
<th>In £m</th>
<th>H1 2016</th>
<th>H1 2015</th>
<th>▲ %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>643</td>
<td>629</td>
<td>2%</td>
</tr>
<tr>
<td>Cost of Sales</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cost of Power Purchases</td>
<td>(339)</td>
<td>(353)</td>
<td></td>
</tr>
<tr>
<td>Grid Charges</td>
<td>(149)</td>
<td>(143)</td>
<td></td>
</tr>
<tr>
<td>Other Retail Costs</td>
<td>(145)</td>
<td>(125)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>(633)</td>
<td>(621)</td>
<td>2%</td>
</tr>
<tr>
<td><strong>Gross Profit</strong></td>
<td>10</td>
<td>8</td>
<td></td>
</tr>
</tbody>
</table>

### Key Metrics

**Retail sales**
- 2016: 7.2TWh (£89.3MWh)
- 2015: 6.8TWh (£92.5/MWh)

**Power purchases**
- Increase reflects sales growth at a lower cost per MWh
  - 2016: £47.1/MWh
  - 2015: £51.9/MWh

**Grid charges**
- Distribution, transmission and balancing costs

**Other retail costs**
- Increasing cost of Renewables Obligation, Feed-in-Tariffs and LECs
Appendix 6: ROC Reporting

Balance sheet reconciliation
- ROC 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
- Value at balance sheet date – estimate of cumulative ROC value generated not sold

<table>
<thead>
<tr>
<th>H1 2016 Balance Sheet – ROC Assets</th>
<th>£m</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROC and LEC Assets</td>
<td></td>
</tr>
<tr>
<td>At 31 December 2015</td>
<td>270</td>
</tr>
<tr>
<td>ROCs Generated</td>
<td>316</td>
</tr>
<tr>
<td>Purchased</td>
<td>-</td>
</tr>
<tr>
<td>Sold or Utilised</td>
<td>(190)</td>
</tr>
<tr>
<td>At 30 June 2016</td>
<td>396</td>
</tr>
</tbody>
</table>
UK corporation tax (CT) rates

- 20% for 2016 and 20.25% for 2015

2016 tax rate

- Underlying rate excludes after tax impact of unrealised gains and losses on derivative contracts
- Other items includes one off prior year R&D tax credits agreed with HMRC
- Anticipate full year rate to include credit for UK tax rate change, expected H2 2016
- Reducing UK tax rate
  - 18% to 17% from April 2020

### Tax Reconciliation

<table>
<thead>
<tr>
<th>In £m (unless otherwise stated)</th>
<th>Reported H1 2016</th>
<th>Reported H1 2015</th>
<th>Underlying H1 2016</th>
<th>Underlying H1 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit Before Tax</td>
<td>184</td>
<td>53</td>
<td>21</td>
<td>56</td>
</tr>
<tr>
<td>Tax at UK CT Rate</td>
<td>(37)</td>
<td>(11)</td>
<td>(4)</td>
<td>(11)</td>
</tr>
<tr>
<td>Adjustment to Prior Year Taxes and Other Items</td>
<td>1</td>
<td>(3)</td>
<td>-</td>
<td>(4)</td>
</tr>
<tr>
<td>Tax Charge</td>
<td>(36)</td>
<td>(14)</td>
<td>(4)</td>
<td>(15)</td>
</tr>
<tr>
<td>Effective Tax Rate</td>
<td>19%</td>
<td>27%</td>
<td>19%</td>
<td>26%</td>
</tr>
</tbody>
</table>
### Appendix 8: 2016 Financial Guidance

<table>
<thead>
<tr>
<th>Summary</th>
<th>£230m – £240m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group Opex</td>
<td>c.£230m – c.£240m</td>
</tr>
<tr>
<td>Group Capex</td>
<td>c.£80 – c.£100m</td>
</tr>
<tr>
<td>Depreciation</td>
<td>c.£110m – c.£115m</td>
</tr>
<tr>
<td>Net Interest&lt;sup&gt;(1)&lt;/sup&gt;</td>
<td>c.£10m – c.£15m</td>
</tr>
<tr>
<td>Underlying Tax&lt;sup&gt;(2)&lt;/sup&gt;</td>
<td>Small tax charge</td>
</tr>
</tbody>
</table>

<sup>1</sup> Net interest remains subject to revaluation of US dollar denominated balances following depreciation of sterling – a non cash item

<sup>2</sup> Excludes potential benefit from US pellet supply business start-up costs
Appendix 9: Power Market

UK power market
Challenging commodity markets driven by oil and gas
- Improvement in Q2 2016 reflects stronger gas and expectations of winter tightness

Dispatch dynamics
- Reduction in coal plant generation due to lower dark green spreads
- Introduction of Supplemental Balancing Reserve
- 8GW of coal exited market
- Wind and solar capacity continues to grow
- Balancing actions increasing

Sources: Brokered Trades, Spectron
Prices as at 17th July 2016
Appendix 10: Gas Market

Global gas
- Delays / disruptions supporting spot price
- Lower oil prices filter through to gas contracts with an oil-indexation element
- Narrowing spread between Asia and Europe
- US LNG exports from Q1-16

US gas
- Key drivers
  - Production declines
  - Warmer weather
  - Increasing demand from power sector
  - Exports

UK gas
- Rough storage unavailable until March 2017
- Coal-to-gas switching adding demand

Source: Thomson Reuters Eikon
Prices as at 17th July 2016
Appendix 11: Coal Market

**UK coal production and demand falling**
- Coal fired power station closures and lower spreads have reduced requirements
- UK coal net imports Q1 2016 fall to 2.6mt - 77% reduction year on year

**Global coal markets remains oversupplied**
- Spot European prices reached lowest levels since 2003, but have since recovered

Source: McCloskeys, Brokered Trades & DECC
Prices as of 17th July 2016
Appendix 12: Carbon Market

Phase III EU ETS

- MSR\(^{(1)}\) approved, commences January 2019
  - Polish legal challenge
- Market oversupply remains at c.2.1bn

Phase IV EU ETS

- COP21 in Paris outcome does not require any changes to EU ETS Phase IV
- Phase IV negotiations progressing – focus on the European Parliament to reach an agreement on framework for 2020 – 2030
- Brexit vote has created uncertainty for the market

---

\(1\) MSR = Market Stability Reserve

Source: ICE ECX

Prices as of 17th July 2016
Appendix 13: Forward Spread Movements

Source: Drax. Assumed typical efficiencies: Dark Green Spread – 36%, Green Spark Spread – 49%
Prices as of 17th July 2016
Appendix 14: Commodity Price Movements

**UK NBP Gas Price**

Sources: Brokered Trades, Spectron

**Coal Prices (API 2)**

Source: McCloskeys, Brokered Trades

**Power Prices**

Sources: Brokered Trades, Spectron

**EUA Carbon Prices**

Source: ICE ECX

Prices as of 17th July 2016
## Appendix 15: Coal Capacity and IED

<table>
<thead>
<tr>
<th>Installation</th>
<th>Operator</th>
<th>Fuel</th>
<th>Installed Capacity (GWe)</th>
<th>Operational in 2017 (GWe)</th>
<th>Closure - Status</th>
<th>Supplementary Balancing Reserve</th>
<th>IED(1) Decision</th>
</tr>
</thead>
<tbody>
<tr>
<td>Rugeley</td>
<td>Engie</td>
<td>Coal</td>
<td>1.0</td>
<td>-</td>
<td>Closed summer 2016</td>
<td>-</td>
<td>TNP(2)</td>
</tr>
<tr>
<td>Ferrybridge</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>2.0</td>
<td>-</td>
<td>Closed March 2016</td>
<td>-</td>
<td>LLD(3)</td>
</tr>
<tr>
<td>Fiddlers Ferry</td>
<td>Scottish &amp; Southern Energy</td>
<td>Coal</td>
<td>2.0</td>
<td>1.6</td>
<td>Consulted on closure, now in receipt of a 1 year Ancillary Services contract</td>
<td>1 unit in SBR - 422MW de-rated capacity for W16</td>
<td>TNP</td>
</tr>
<tr>
<td>Longannet</td>
<td>Scottish Power</td>
<td>Coal</td>
<td>2.3</td>
<td>-</td>
<td>Closed March 2016</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td>Eggborough</td>
<td>EPL</td>
<td>Coal</td>
<td>1.9</td>
<td>-</td>
<td>-</td>
<td>681MW de-rated capacity for W16</td>
<td>LLD</td>
</tr>
<tr>
<td>Cottam</td>
<td>EDF Energy</td>
<td>Coal</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td>West Burton</td>
<td>EDF Energy</td>
<td>Coal</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td>Aberthaw</td>
<td>RWE npower</td>
<td>Coal</td>
<td>1.6</td>
<td>1.6</td>
<td>Indicated restricted operations and availability</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td>Drax</td>
<td>Drax Power</td>
<td>Coal</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td>Ratcliffe</td>
<td>E.ON UK</td>
<td>Coal</td>
<td>2.0</td>
<td>2.0</td>
<td>-</td>
<td>-</td>
<td>TNP</td>
</tr>
<tr>
<td><strong>Total GWe</strong></td>
<td></td>
<td></td>
<td><strong>18.8</strong></td>
<td><strong>11.2</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

1) IED = Industrial Emissions Directive  
2) TNP = Transitional Nation Plan  
3) LLD = Limited Life Derogation