

# 2023 Half Year Results

27 July 2023

drax



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Chief Executive Officer



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- **Operational Review**
- **Financial Review**
- **Strategy Update**



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## **Our Purpose**

Enabling a zero carbon, lower cost energy future

## **Our People**

Valued members of a winning team with a worthwhile mission

## **Our Ambition**

To be a carbon negative company by 2030

## Strong financial and operational performance, returns to shareholders, development of BECCS options

### Financials

- 101% increase in Adjusted EBITDA (excluding Electricity Generator Levy)
- 10% increase in dividend per share
- £150m share buy-back programme ongoing

### Operations

- High levels of dispatchable, renewable generation and system support services
- Strong pumped storage and hydro performance
- Increase in Total Recordable Injury Rate
- Coal decommissioning

### £7bn of strategic growth opportunities

- Ambition for over 20Mt pa of carbon removals – 14Mt pa by 2030
- US BECCS – two initial sites selected
- Ongoing discussions with UK Government re bridging mechanism and BECCS



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# Operational Review

High levels of renewable generation and system support services, utilising the Group's flexible, vertically-integrated biomass supply chain and dispatchable generation assets to support security of supply



## Production and sales to support UK generation, and third party sales

### 7% increase in Adjusted EBITDA

- Integrated supply chain model supports production and supply in a challenging operational environment

### 5% reduction in production

- Unplanned outages, wind damage at Port of Baton Rouge and temporary curtailment of one site due to wildfire
- Partially offset by production at Demopolis plant

### Cost increases offset by revenue growth

- Maintenance, labour, in-country transport, energy and fibre costs

### Progressing new Longview pellet plant and Aliceville expansion

- Investment of c.\$300m, operational by 2025, 0.6Mt of new capacity

### Biomass R&D investment

- Sugar extraction plant

### Heads of terms agreed for new sales to Japanese counterparty (July 2023)

- c.0.5Mt over 5 years

### Adjusted EBITDA

**£48m**

(H1-22: £45m)

### Pellet production

**1.9Mt**

(H1-22: 2.0Mt)

### Sales to 3<sup>rd</sup> parties

**1.2Mt**

(H1-22: 1.0Mt)

## Strong renewable generation and system support performance

### Biomass

- Two major planned outages over summer 2023
- Forced outage on one unit due to transformer issue – unit returned to service

### Pumped storage and hydro

- Power generation and system support services

### Coal

- Completion of winter contingency contract March 2023 – no generation
- Decommissioning commenced April 2023

<b>Adjusted EBITDA</b> (excl. EGL) <b>£457m</b> (H1-22: £205m)	<b>EGL<sup>(1)</sup></b> <b>£35m</b> (H1-22: n/a)	<b>System support<sup>(2)</sup></b> <b>£127m</b> (H1-22: £71m)
<b>Biomass availability<sup>(3)</sup></b> <b>87%</b> (H1-22: 86%)	<b>Biomass generation</b> <b>5.3TWh</b> (H1-22: 6.1TWh)	<b>Hydro generation<sup>(4)</sup></b> <b>0.3TWh</b> (H1-22: 0.2TWh)
<b>% of UK renewables</b> <b>9%<sup>(5)</sup></b> (Q2 2021 to Q1 2022: 11%)	<b>% of UK renewables</b> <b>14% at peak</b>	<b>% of UK renewables</b> <b>Up to 52% of in-day peak</b>

1) Electricity Generator Levy – comprised of £23m biomass ROC and £12m hydro.

2) Balancing mechanism, ancillary services and portfolio optimisation.

3) Equal weighting given to all four biomass units.

4) Gross output from pumped storage and hydro schemes.

5) Measured by output Q2 2022 to Q1 2023.

## Strong system support and renewable generation performance

Adjusted EBITDA<sup>(1)</sup>

£154m

(H1-22: £53m)

Generation<sup>(2)</sup>

0.3TWh

(H1-22: 0.2TWh)

### H1 performance

- Strong system support performance
- Pumped storage – forward power sales (Q1 2023)

### Full range of power generation and system services

- Increase in demand for system services reflects changing system dynamic

SYSTEM SERVICES	Pumped Storage	Biomass	GAS	NUCLEAR	WIND	SOLAR	BATTERIES	INTERCO
Clean electricity	YES	YES	NO	YES	YES	YES	PARTIAL	PARTIAL
Controllable / Dispatchable	YES	YES	YES	NO	PARTIAL	PARTIAL	YES	YES
Inertia	YES	YES	YES	YES	NO	NO	NO	NO
Dynamic response	YES	YES	YES	NO	PARTIAL	NO	YES	YES
Reserve	YES	YES	YES	NO	PARTIAL	NO	YES	YES
Reactive Power	YES	YES	YES	YES	PARTIAL	NO	YES	YES
Black Start	YES	YES	YES	PARTIAL	NO	NO	NO	YES

## Pumped storage and hydro portfolio



### Pumped Storage – Cruachan

- 440MW – large-scale storage and flexible generation
- Long duration storage – over 16 hours
- Option for 600MW expansion of Cruachan

### Hydro – Lanark and Galloway

- 126MW – combined run-of-river and storage

1) Excludes EGL of £12m.

2) Gross output from pumped storage and hydro schemes.

## Renewable power and decarbonisation services to high-quality I&C and corporate customers

### Strong operational and financial performance

- Continued improvement in Adjusted EBITDA
- Sale of forward hedged power not required and lower system costs

### Renewable supply offering

- Efficient route to market for large volumes of Drax power generation
- 16% increase in supply volumes

### Developing portfolio of decarbonisation products

- Route-to-market for over 2,000 renewable generators
- Increasing demand for Electric Vehicle charge point services
- Second largest provider to the Demand Flexibility Service

### I&C alignment with Group strategy

- Route-to-market for large volumes of renewable power
- Potential route-to-market for carbon removal certificates

Adjusted EBITDA  
**£37m**  
(H1-22: £24m)

Drax I&C power sales  
**8.0TWh**  
(H1-22: 6.9TWh)



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# Financial Review

A strong performance utilising the Group's flexible, vertically-integrated biomass supply chain and dispatchable generation assets to support UK security of supply and value creation for the Group

Committed to capital allocation policy



## Strong financial performance

**Adjusted  
EBITDA (excl. EGL)<sup>(1)</sup>**

**£453m**  
(H1-22: £225m)

**Total Cash and  
Committed Facilities  
June 2023**

**£586m**  
(Dec-22: £698m)

**Cash Generated from  
Operations**

**£404m**  
(H1-22: £185m)

**Net Debt  
June 2023<sup>(2)</sup>**

**£1,274m**  
(H1-22 £1,116m)

**Adjusted  
EBITDA (incl. EGL)<sup>(1)</sup>**

**£417m**  
(H1-22: £225m)

**Adjusted  
Basic Earnings Per Share<sup>(1)</sup>**

**46.0p/share<sup>(2/3)</sup>**  
(H1-22: 20.0p/share)

**Interim Dividend  
9.2p/share (£36m)**

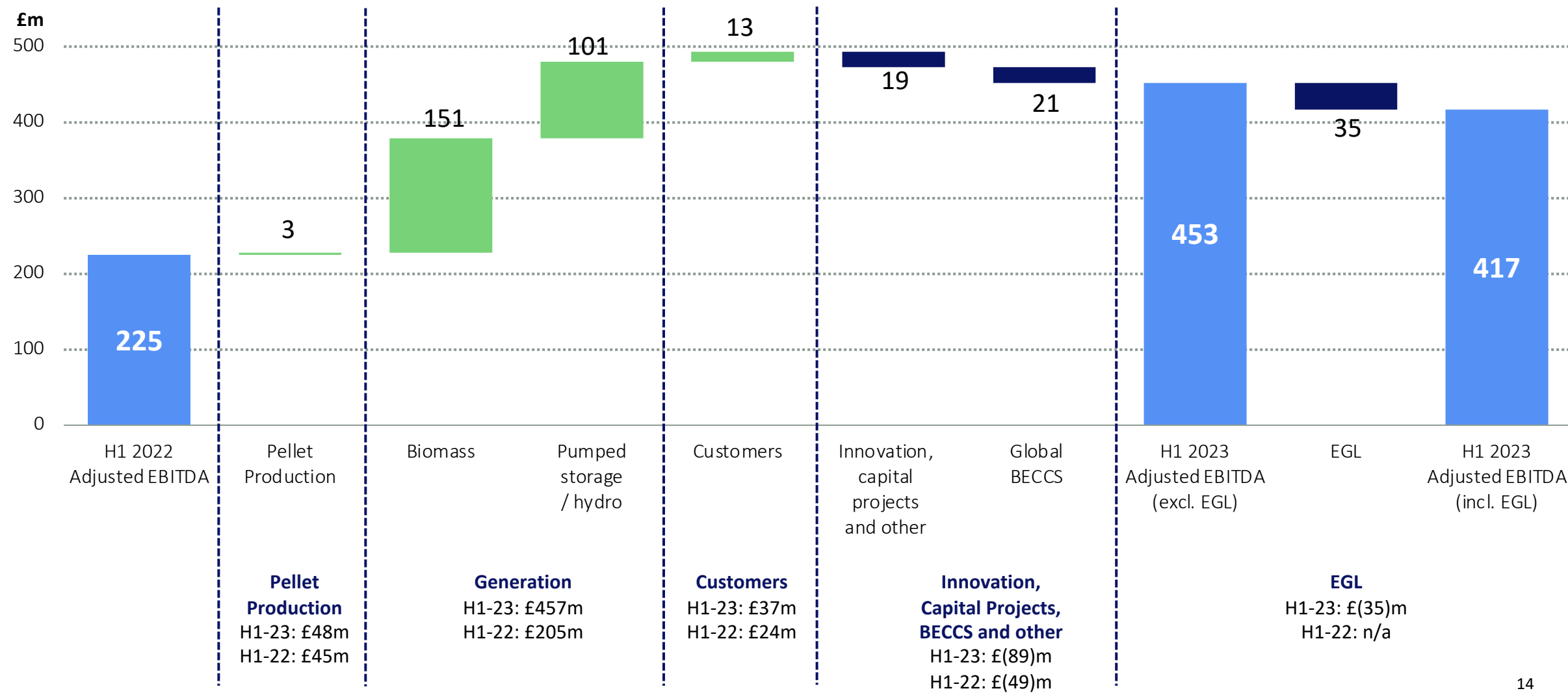
(H1-22: 8.4p/share, £34m)

**Expected Full Year Dividend  
23.1p/share<sup>(3)</sup> (£90m)**

(2022: 21.0p/share, £84m)

- 1) In December 2022, the UK Government confirmed the details of a windfall tax – the Electricity Generator Levy (EGL) – on renewable and low-carbon generators between 2023 and March 2028. The levy applies to the three biomass units operating under the Renewables Obligation (RO) scheme and our run-of-river hydro operations. It does not apply to the Contract for Difference (CfD) biomass or pumped storage hydro units. Following review, we have concluded that EGL will be accounted for as a levy within Gross Profit and therefore Adjusted EBITDA. For the remainder of 2023 we will present Adjusted EBITDA including and excluding EGL for ease of comparison.
- 2) Cash and short-term investments of £125m less borrowings of £1,363m (less impact of hedging instruments within borrowings of £36m).
- 3) Final dividend remains conditional on final Board determination and shareholder approval at the next AGM.

101% increase in Adjusted EBITDA



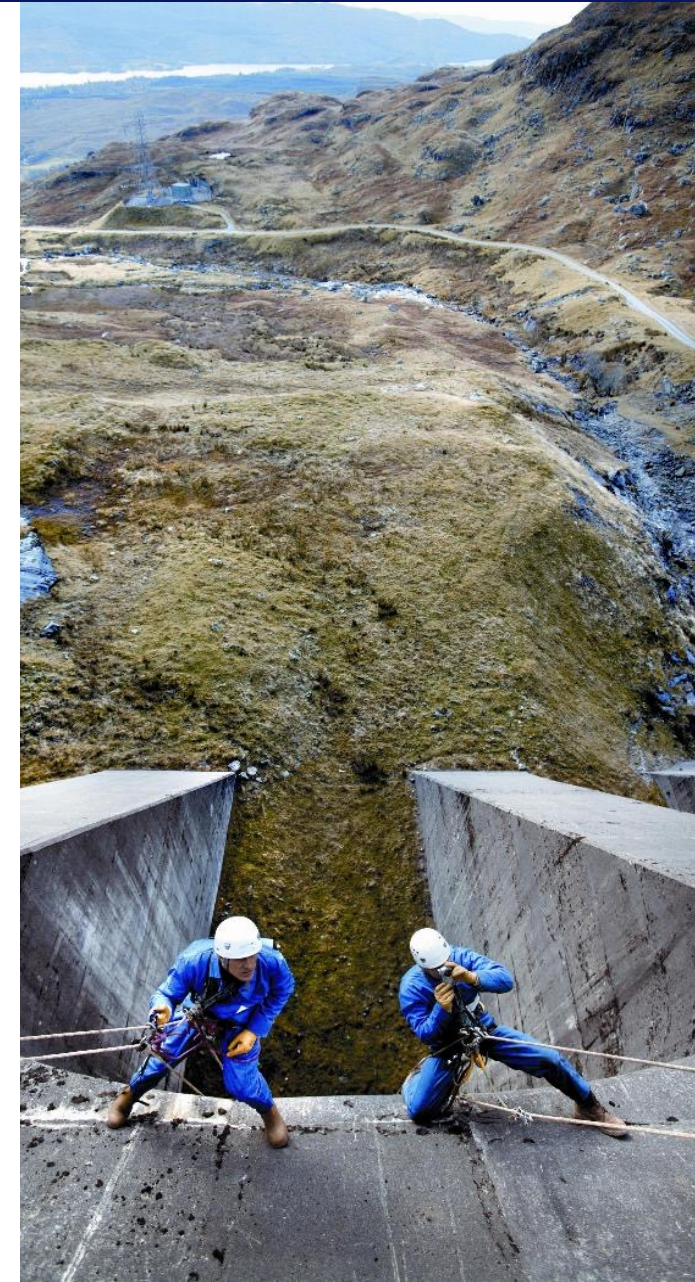
## Investment in core assets and strategy

2023 estimate	Key areas	Investment
Maintenance	Includes two major planned biomass outages	£120-140m
Enhancement	Efficiency and operational improvements	£30m
Strategic and growth	Biomass, BECCS and OCGT	£340-380m
Other	Health, safety, environmental and IT	£30m
Total		£520-580m

**H1 2023: £210m, including first of two major planned outages**

### Full year outlook

- Investment in development of UK BECCS substantially paused pending clarity from UK Government
- OCGT investment of c.£220m
- Continued investment in Longview pellet plant and Aliceville expansion



## Strong balance sheet and liquidity supporting power sales and system support activities

### Facilities in place to support growth and decarbonisation

- Infrastructure facilities extend maturity profile to 2030
- ESG facilities with margin linked to carbon emissions

### Active management of liquidity

### Group cost of debt 4.6%

- Primarily fixed rate facilities

### Strong credit profile

- S&P/Fitch (BB+ stable) and Fitch senior secured rating
- DBRS investment grade rating (BBB low stable)

Expect significantly  
<2x Net debt to  
Adjusted EBITDA  
incl. EGL by end of  
2023

Total cash and  
committed facilities  
June 2023  
£586m  
(Dec-22: £698m)

Maturity  
profile to 2030

Instrument	Maturity	Description
Infrastructure facilities	2024-2030	£587m <sup>(1)</sup>
Bonds	2025	\$500m
	2025	€250m
ESG revolving credit facility	2025	£300m (undrawn)
Liquidity facility <sup>(2)</sup>	2023	£200m (undrawn)
ESG term-loan	2024	C\$300m

- 1) 2019 infrastructure facility of £375m – £123m in 2024, £123m in 2025, £80m in 2026 and £50m in 2029.  
2020 infrastructure facility of c.£212m – €25m in 2024 (£23m), €70m (£63m) in 2026, £45m in 2027, £53m in 2028 and €31m (£28m) in 2030.
- 2) In December 2022, Drax agreed a new £200m credit facility with banks within its lending group. The facility provides an additional source of liquidity to the Group's undrawn £300m revolving credit facility over the next 12 months.

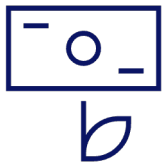
Implemented in 2017, designed to support strategy



1. Maintain credit rating



2. Invest in core business



3. Sustainable and growing dividend



4. Return surplus capital beyond investment requirements

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# Strategy Update

**Objective 1: to be a global leader in carbon removals**

**Objective 2: to be a global leader in sustainable biomass pellets**

**Objective 3: to be a UK leader in dispatchable, renewable generation**



## £7bn of strategic investment opportunities aligned with climate solutions, net zero and energy security Attractive opportunities for long-term growth and positive climate, nature and people outcomes

<b>Carbon removals</b>	<b>Ambition for &gt;20Mt pa of carbon removals from BECCS – 14Mt pa by 2030</b> <ul style="list-style-type: none"><li>• 2 sites selected in US South – targeting c.6Mt pa by 2030</li><li>• Evaluating additional sites in US for greenfield and brownfield BECCS</li><li>• Development of option for CCS on a pellet plant – targeting FID in 2024/25, commissioning in 2026</li><li>• MoUs agreed for sale of &gt;2Mt</li><li>• 8Mt pa of carbon removals at Drax Power Station by 2030</li></ul>
<b>Biomass pellet supply</b>	<b>Targeting 8Mt of production capacity by 2030</b> <ul style="list-style-type: none"><li>• c.5Mt of current production capacity</li><li>• 18 fully operational pellet plants and developments across four major fibre baskets and five ports</li><li>• c.2.5Mt of new capacity, plus 0.6Mt in development</li><li>• Continue to target 4Mt pa of sales to third parties by 2030</li></ul>
<b>Dispatchable, renewable generation</b>	<b>Increased value from pumped storage and option for 600MW expansion of Cruachan by 2030</b> <ul style="list-style-type: none"><li>• Multiple earnings sources aligned with system needs</li><li>• Underpinned by long-term earnings stability via a cap and floor mechanism</li><li>• Planning approval granted (July 2023)</li></ul> <b>Construction of c.900MW Open Cycle Gas Turbine plants across three sites in England and Wales</b>

## Drax ready to invest c.£2bn in UK BECCS, pending clarity from UK Government

### UK Government

#### Supportive of deployment of Power-BECCS by 2030 – progress in H1 2023

- Reaffirmed commitment to 5Mt of carbon removals pa by 2030 (and 23Mt by 2035)
- June 2023 – consultation on UK Emissions Trading Scheme (ETS) – inclusion of Greenhouse Gas Removals (GGR) into ETS to provide a long-term market for the negative emissions produced by GGR
- July 2023 – GGR consultation – confirms policy support needed to enable investment in BECCS and CfD as preferred model
- Business model to support Power-BECCS under development
- Bioenergy Strategy Review expected summer 2023

### Drax

#### Targeting BECCS at Drax Power Station between 2027 and 2030

- Formal discussions with UK Government – bridging mechanism between end of current renewable schemes and BECCS

#### Key milestones and catalysts for UK BECCS (6-12 months)

- Bridging mechanism
- Funding envelope for Track 1 expansion and Track 2, including selection of Drax Power Station
- Confirmation of T&S infrastructure to connect to Drax Power Station
- Power-BECCS business model and heads of terms

## Developing a pipeline of project options in North America to provide attractive investment opportunities in long-term, large-scale carbon removals

### Scientific and political support for BECCS

- IPCC – median requirement of 2.8 billion tonnes of carbon removals pa from BECCS by 2050 could be required to maintain a 1.5°C pathway

### Key considerations

- Regulatory and political environment
- Proximity to sustainable fibre
- Geology and T&S infrastructure

### Prioritising US development

- Supportive environment under Inflation Reduction Act

### New-build BECCS illustrative site details



## **Strong financial and operational performance, returns to shareholders, development of BECCS options**

### **Near-term focus on renewable generation and system support services**

- Utilising Group's flexible, vertically-integrated biomass supply chain and dispatchable generation assets to support security of supply

### **Medium / long-term – development of pipeline of attractive investment opportunities**

- Aligned with climate solutions, net zero and energy security

### **A disciplined approach to capital allocation**

- Strong balance sheet
- Investment in core business and growth opportunities
- Sustainable and growing dividend
- Returns to shareholders – £150m share buy-back ongoing

# 2023 Half Year Results

27 July 2023

drax

**Group Adjusted EBITDA**

**Group Income Statement**

**Segmental Adjusted EBITDA**

**Pellet Production – Adjusted EBITDA**

**Generation – Adjusted EBITDA**

**Customers – Adjusted EBITDA**

**Group Cash Flow Statement**

**Group Net Debt Bridge**

**Contracted Generation Power Sales**

**Drax Role in UK System Support and Energy Security**

**Electricity Generator Levy**

**Merchant Forward Commodity Prices**

**Merchant Forward Carbon Prices**

## High-quality earnings from a multi-technology portfolio and integrated supply chain

Business unit	Assets	Capacity	H1-23 Adjusted EBITDA (£m)	H1-22 Adjusted EBITDA (£m)
Pellet Production	18 pellet plants and developments in Canada and US Access to five deep water ports	>5Mt	48	45
Generation	Biomass <sup>(1)</sup>	2.6GW	303	152
	Hydro Cruachan – pumped storage Lanark and Galloway – hydro Daldowie – energy from waste	0.6GW	154	53
Customers	I&C and SME supply		37	24
Innovation, Capital Projects, BECCS and other			(89)	(49)
Adjusted EBITDA (excl. EGL)			453	225
EGL			(35)	-
Adjusted EBITDA (incl. EGL)			417	225

1) Drax Power Station – formal closure of coal at the end of March 2023.

# Group Income Statement

In £m	H1-23			H1-22		
	Adjusted	Exceptional	Total	Adjusted	Exceptional	Total
Revenue	3,964	126	4,090	3,621	(64)	3,557
Cost of sales	(3,167)	(41)	(3,208)	(3,135)	194	(2,941)
Electricity Generator Levy	(35)	-	(35)	-	-	-
<b>Gross profit</b>	<b>762</b>	<b>85</b>	<b>847</b>	<b>486</b>	<b>130</b>	<b>616</b>
Operating and administrative expenses	(327)	-	(327)	(235)	(2)	(237)
Impairment losses on financial assets	(19)	-	(19)	(26)	-	(26)
<b>Adjusted EBITDA including EGL</b>	<b>417</b>	<b>n/a</b>	<b>n/a</b>	<b>225</b>	<b>n/a</b>	<b>n/a</b>
Depreciation	(95)	-	(95)	(106)	-	(106)
Amortisation	(14)	-	(14)	(15)	-	(15)
Impairment losses on non-current assets	-	-	-	-	(25)	(25)
Other gains/(losses)	1	-	1	(1)	-	(1)
(Expense)/income from associates	(1)	-	(1)	1	-	1
<b>Operating profit</b>	<b>308</b>	<b>85</b>	<b>392</b>	<b>104</b>	<b>103</b>	<b>207</b>
Foreign exchange (losses)/gains	(7)	-	(7)	28	-	28
Net interest charge	(48)	-	(48)	(35)	-	(35)
<b>Profit before tax</b>	<b>253</b>	<b>85</b>	<b>338</b>	<b>97</b>	<b>103</b>	<b>200</b>
Tax	(70)	(21)	(91)	(18)	(34)	(52)
<b>Net result</b>	<b>184</b>	<b>64</b>	<b>247</b>	<b>79</b>	<b>69</b>	<b>148</b>

H1-23 In £m	Power Generation	Pellet Production	Customers	Adjustments <sup>(1)</sup>	Innovation, Capital Projects, BECCS and other	Consolidated
Adjusted EBITDA (excl. EGL)	457	48	37	(9)	(80)	453
EGL	(35)	-	-	-	-	(35)
Adjusted EBITDA (incl. EGL)	421	48	37	(9)	(80)	417

H1-22 In £m	Power Generation	Pellet Production	Customers	Adjustments <sup>(1)</sup>	Innovation, Capital Projects, BECCS and other	Consolidated
Adjusted EBITDA (excl. EGL)	205	45	24	(5)	(44)	225
EGL	-	-	-	-	-	-
Adjusted EBITDA (incl. EGL)	205	45	24	(5)	(44)	225

1) Intercompany eliminations

In £m	H1-23	H1-22
Revenues	386	358
Cost of sales	(239)	(242)
<b>Gross profit</b>	<b>147</b>	<b>116</b>
Operating costs	(99)	(71)
<b>Adjusted EBITDA</b>	<b>48</b>	<b>45</b>

# Generation – Adjusted EBITDA

In £m	H1-23	H1-22
<b>Revenue</b>		
Power sales	2,722	2,549
System support and optimisation	195	91
ROC sales	300	396
CfD payment to LCCC	(58)	(8)
Capacity Market income	2	8
Gas sales to Customers business	85	60
Fuel sales and other income	29	37
	<b>3,275</b>	<b>3,133</b>
<b>Cost of sales</b>		
Generation fuel costs	(713)	(620)
System support and optimisation	(67)	(20)
ROC support	252	267
Carbon certificates	(3)	(2)
ROCs sold or utilized	(315)	(400)
Cost of power purchases	(1,823)	(2,017)
Grid charges	(35)	(55)
EGL	(35)	-
	<b>(2,739)</b>	<b>(2,847)</b>
<b>Gross profit</b>	<b>536</b>	<b>286</b>
Operating costs	(114)	(81)
<b>Adjusted EBITDA incl. EGL</b>	<b>422</b>	<b>205</b>
EGL	35	-
<b>Adjusted EBITDA excl. EGL</b>	<b>457</b>	<b>205</b>

## System support and optimisation

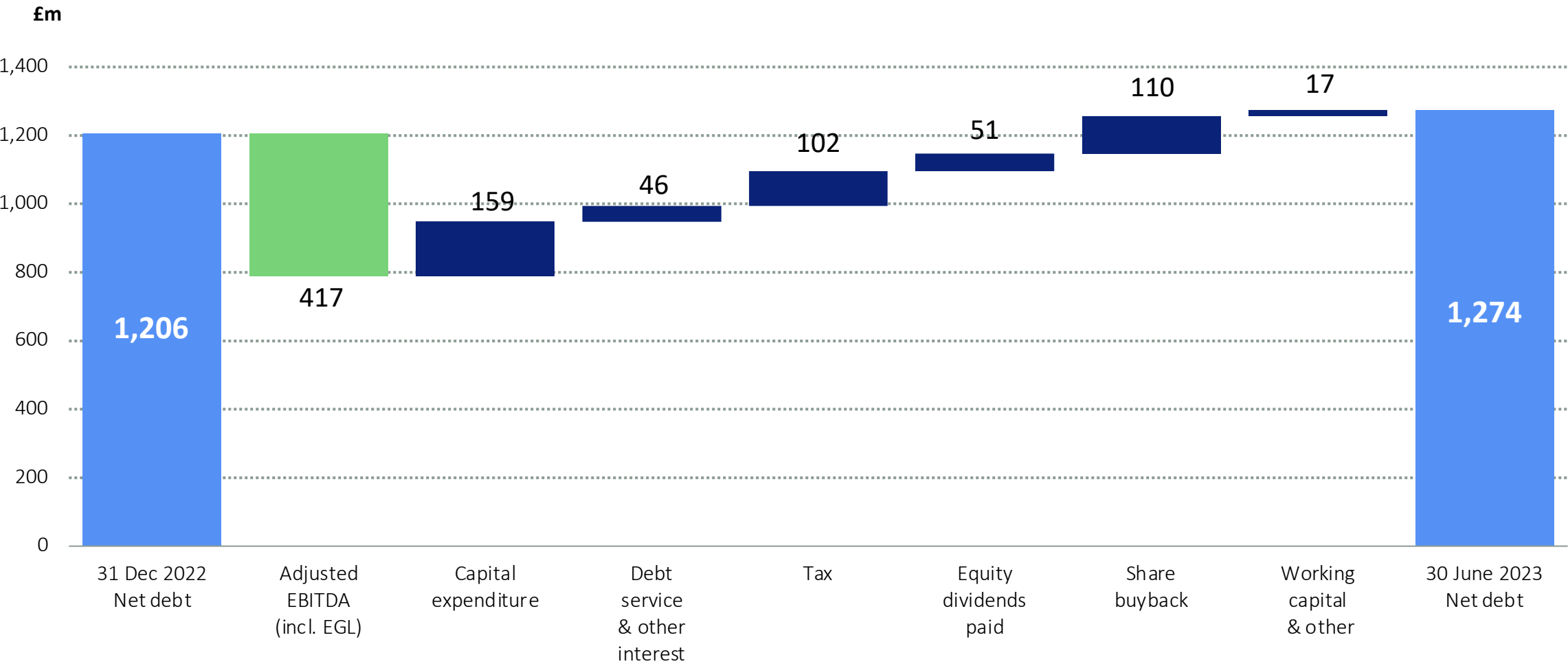
£m	H1-23	H1-22
<b>System support and optimisation</b>		
Revenues	195	91
Cost of sales	(68)	(20)
<b>Margin from system support and optimisation</b>	<b>127</b>	<b>71</b>

## Average achieved power price

	H1-23	H1-22
Gross power sales (£m)	2,722	2,549
Cost of power purchases (£m)	(1,823)	(2,017)
<b>Net power sales (£m)</b>	<b>899</b>	<b>532</b>
Net power sales (TWh)	5.6	6.3
<b>Average achieved price (£/MWh)</b>	<b>163</b>	<b>84</b>

In £m	H1-23	H1-22
Revenue	2,648	1,668
<b>Cost of sales</b>		
Cost of power and gas purchases	(1,774)	(934)
Grid charges	(361)	(319)
Other costs	(418)	(325)
	<b>(2,553)</b>	<b>(1,578)</b>
<b>Gross profit</b>	<b>95</b>	<b>90</b>
Operating costs	(39)	(40)
Bad debt charge	(19)	(26)
<b>Adjusted EBITDA</b>	<b>37</b>	<b>24</b>

In £m	H1-23	H1-22
Adjusted EBITDA (incl. EGL)	417	225
Working capital and other	(13)	(40)
<b>Cash generated from operations</b>	<b>404</b>	<b>185</b>
Debt service and other interest	(46)	(32)
Tax	(102)	(9)
<b>Net cash from operating activities</b>	<b>256</b>	<b>144</b>
Capital investment	(159)	(83)
Purchase of equity in associates	(2)	-
Net financing	(43)	(41)
Equity dividends paid	(51)	(45)
Purchase of own shares	(110)	-
Other	(4)	(7)
<b>Decrease in cash and cash equivalents</b>	<b>(113)</b>	<b>(32)</b>
Cash and cash equivalents at the beginning of the period	238	317
Net cash flow	(113)	(32)
Effect of changes in foreign exchange rates	-	3
<b>Cash and cash equivalents at the end of the period</b>	<b>125</b>	<b>288</b>



Contracted power sales 21 July 2023	2023	2024	2025
Net ROC, hydro and gas (TWh) <sup>(1/2)</sup>	11.7	11.2	5.2
-Average achieved £ per MWh	162.7	147.5	126.2

## Strong contracted power sales on ROC and Hydro 2023-2025

- 28.1TWh contracted at £150.0/MWh

1) Includes structured power sales (forward gas sales as a proxy for forward power), transacted for the purpose of accessing additional liquidity for forward sales from ROC units and highly correlated to forward power prices. 2024: 0.4TWh, 2025: 1.5TWh, presented net of cost of closing out gas positions at maturity and replacing with forward power sales.  
2) 2023 includes forward selling of pumped storage generation resulting in higher captured prices but lower system support availability.

## UK's largest source of renewable energy by output

- 4% of total annual power generation
- 9% of total annual renewable generation
- Up to 52% of in-day peak renewable generation

## A UK leader in dispatchable generation – 3.1GW of capacity

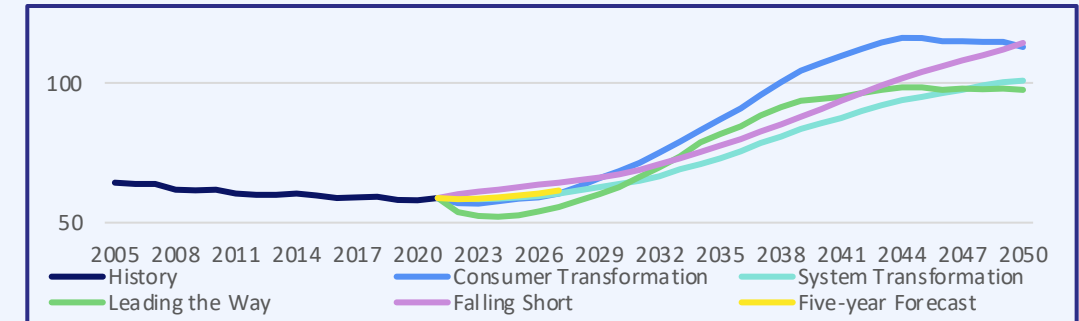
- Growth in wind, solar and nuclear = intermittency, inflexibility and volatility
- Greater role for dispatchable assets = opportunity for value

## Security of supply – underpinned by integrated supply chain

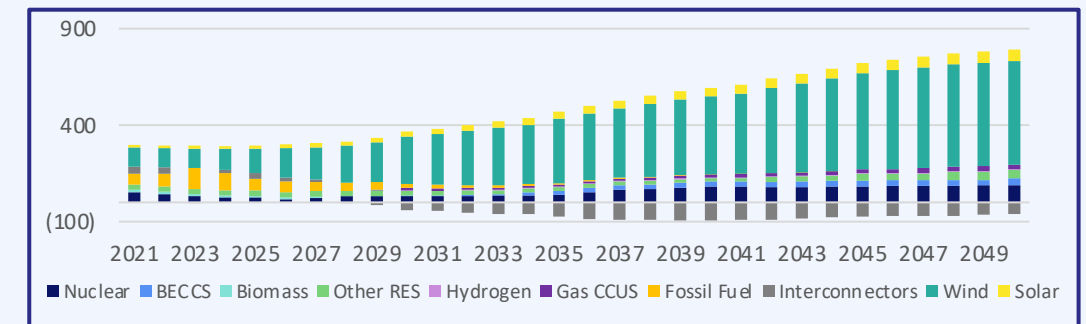
## Multiple earnings opportunities

- Forward power sales up to two years in advance
- Index-linked renewable incentive schemes
- System support services via power markets, balancing mechanism and ancillary services
- Capacity payments

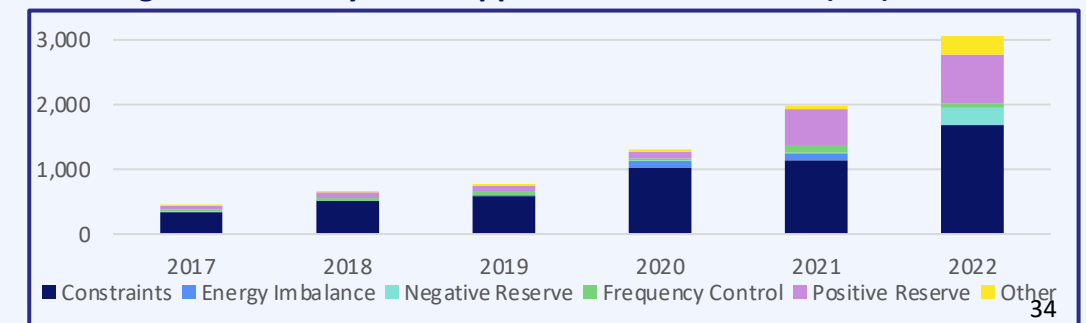
## Significant increase in demand – peaks (TWh)



## Increase in intermittent and inflexible generation capacity (TWh)



## Growing value from system support services – BSUoS (£m)

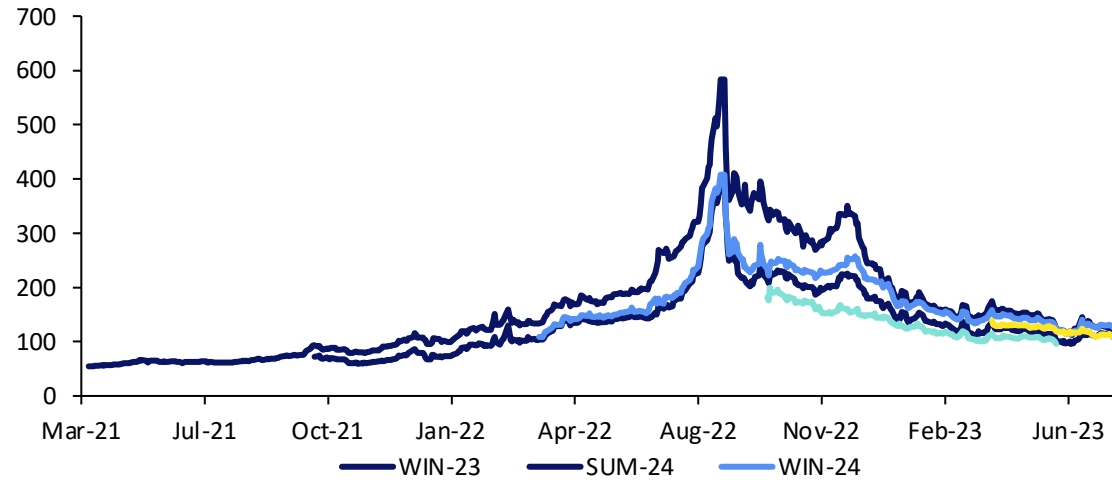


Sources: National Grid Future Energy Scenarios and system support service data

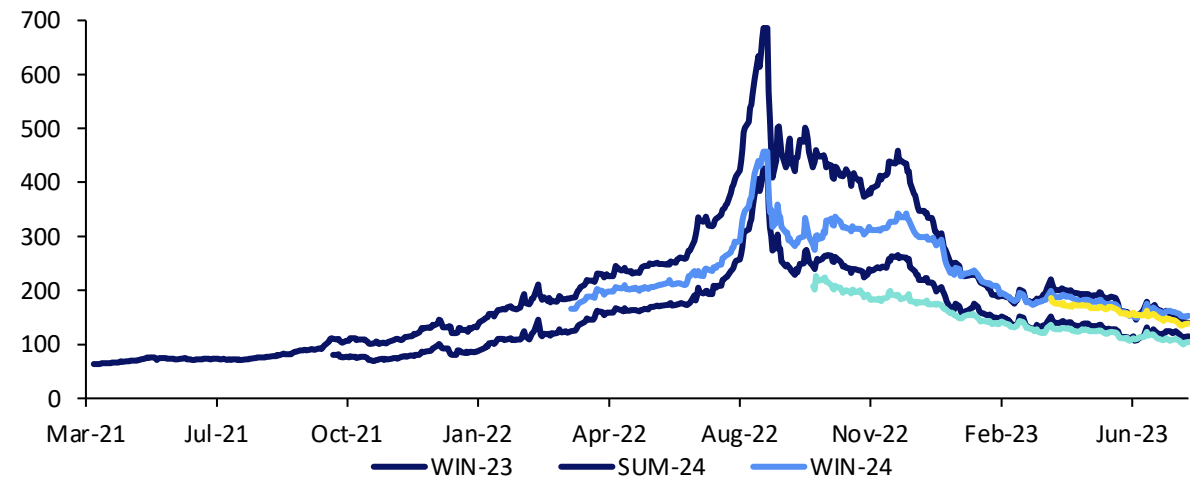
## **A levy on renewable and low-carbon generators**

- Applies to the biomass units operating under the Renewable Obligation scheme and run of river hydro operations
- Does not apply to CfD biomass and pumped storage hydro units
- Structured as a levy on power sales above a benchmark of £75/MWh (indexed to CPI from April 2024)
- Includes an allowable exceptional fuel cost element which increases the benchmark and is calculated retrospectively based on the actual cost above a baseline fuel cost of £65/MWh or historical levels, whichever is lower
- Applies to revenues on electricity generated between January 2023 and March 2028
- EGL is a levy but is administered as a tax and subject to agreement with HMRC

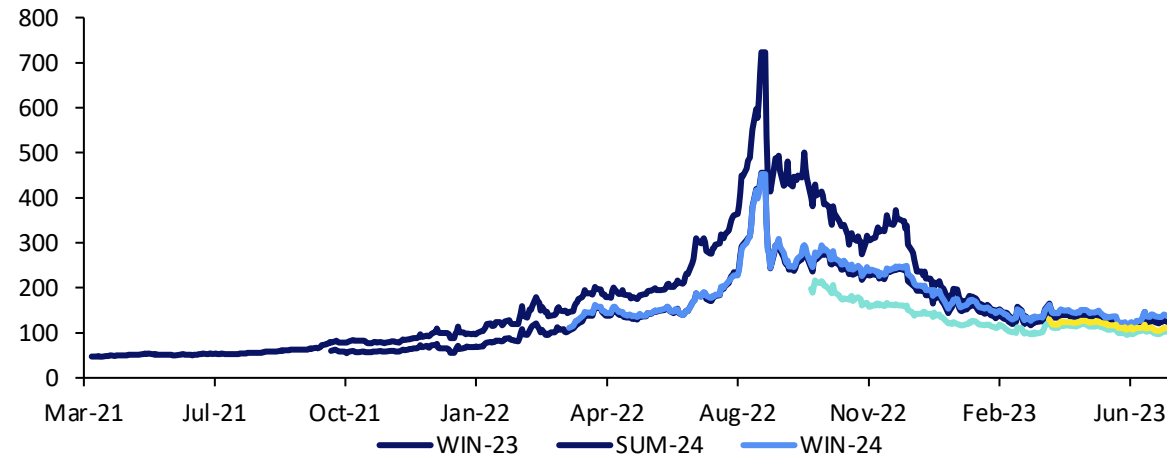
## Baseload Power Price (£/MWh)



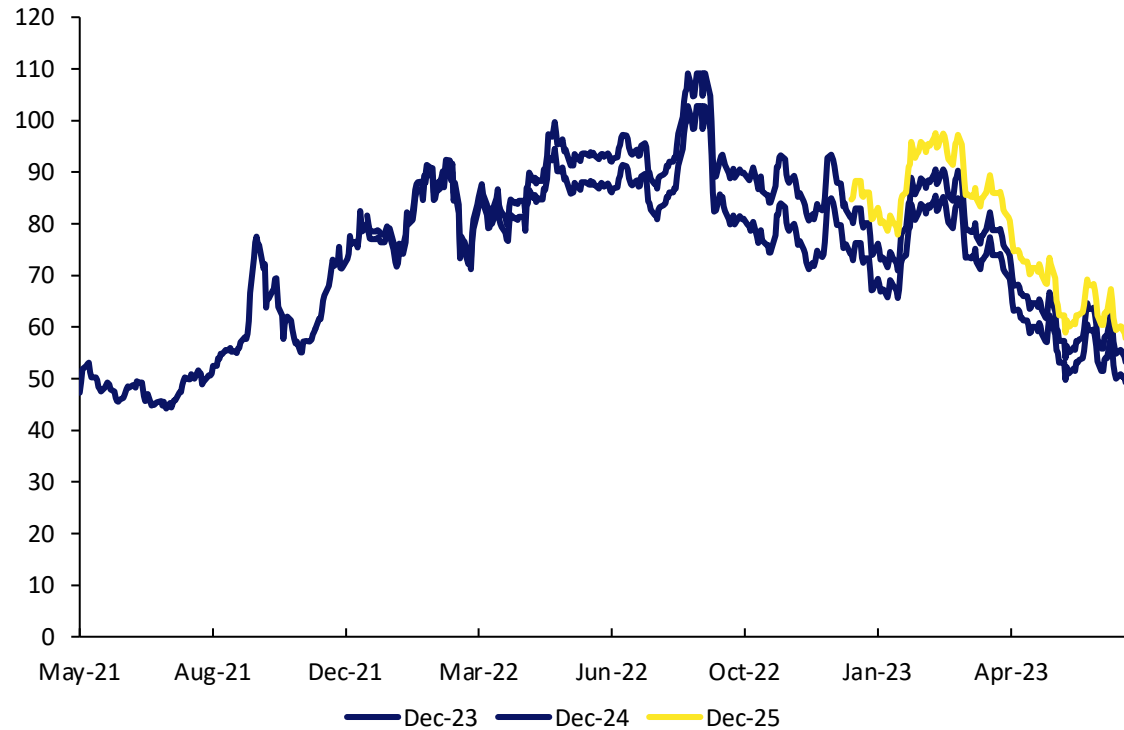
## Peak Power Price (£/MWh)



## NBP Gas Price (p/therm)

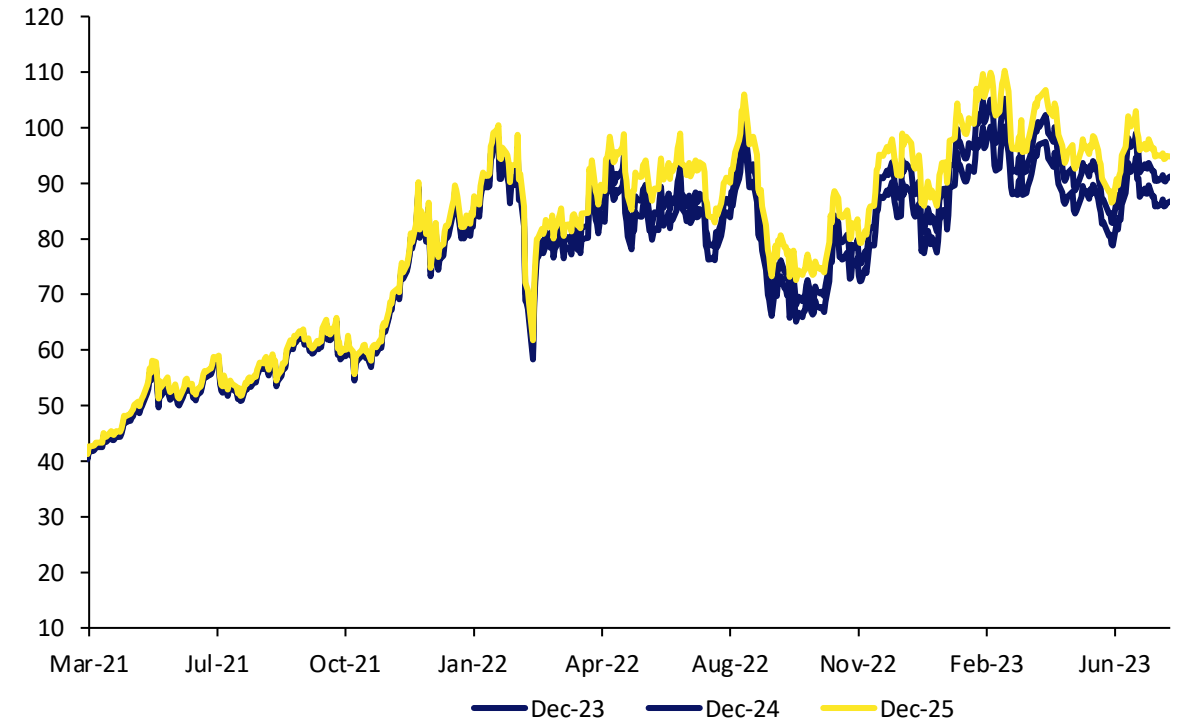


## UKA Carbon (£/t)



Source: ICE

## EU ETS Carbon (€/t)



Source: ICE

# 2023 Half Year Results

27 July 2023

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