Half Year Results

6 Months Ended 30 June 2014

29 July 2014

Agenda

H1 2014 Business Review
Regulation and Biomass

Dorothy Thompson

Chief Executive

H1 2014 Financial Review

Tony Quinlan

Finance Director

Conclusion

Dorothy Thompson

Overview

Dorothy Thompson – Chief Executive

H1 2014 performance

Good operations

Increasing cost of UK carbon tax

Sustainable biomass generation

Now more than 20% of output – enough to power 2 million homes

Regulation

More clarity expected

EBITDA

£102m

Underlying Earnings Per Share

9.4p

Interim Dividend

4.7p/share (£19m)

Business Review – Safety and Sustainability

Safety

Maintaining good safety performance

- LTIR performance at historic lows
- US construction performance improving
  - Further progress required

Sustainability

All Drax biomass procured against robust industry-leading sustainability policy

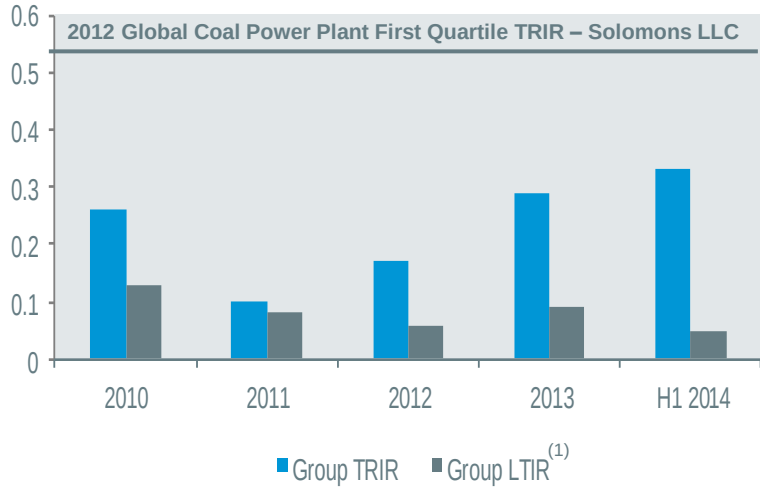
- Fully compliant in 2013
- Delivering >80% carbon life cycle savings vs. coal
- Thorough PWC independent audit process

DECC working towards mandatory standards

Sustainable Biomass Partnership

- Common sustainability certification across major European generators

Safety Performance



(1) TRIR = total recordable injury rate, LTIR = lost time injury rate

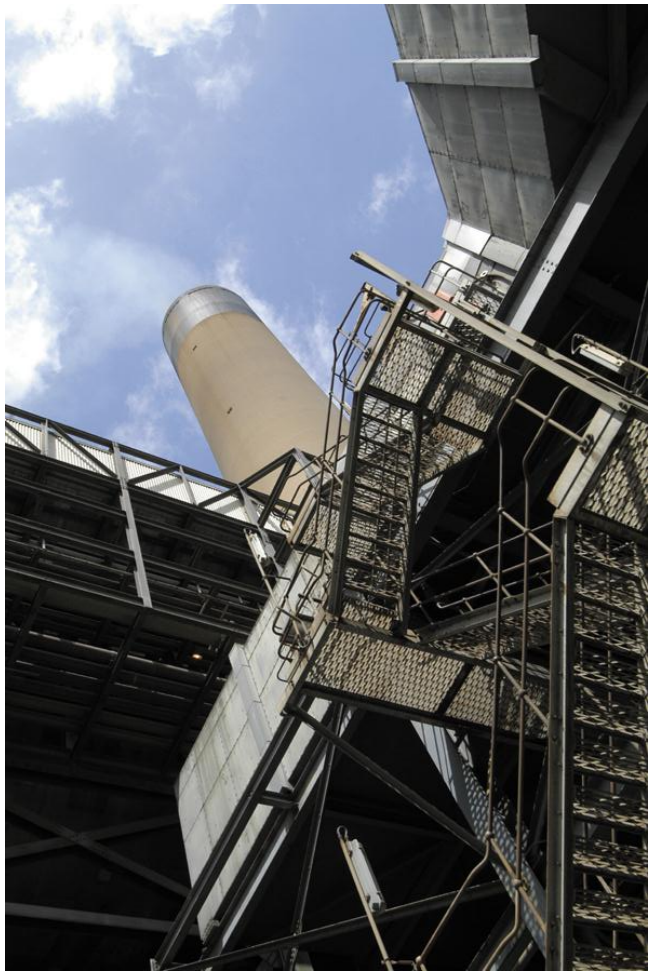
Business Review – Coal Operations

Good operating performance

85% availability (H1 2013: 82%)

- 7.3% forced outage rate (H1 2013: 7.6%)
- Long-term FOR target 5%
- 8.3% planned outage rate (H1 2013: 11.1%)

82% load factor (H1 2013: 78%)



Fuel Mix

	H1 2014		H1 2013		12m 2013
	Tonnes	Mix%(1)	Tonnes	Mix%(1)	Mix%(1)
Coal	4.0Mt	77%	4.6Mt	93%	88%
Biomass	1.6Mt	23%	0.4Mt	7%	12%

(1) By heat

Business Review – Biomass Operations

Biomass now > 20% of fuel mix

First converted unit

- First 6 months of operations with fully scoped systems

Enhanced co-firing (ECF) unit

- Fuelled with coal and biomass – minimum 85% biomass
- NOx and fuel trials

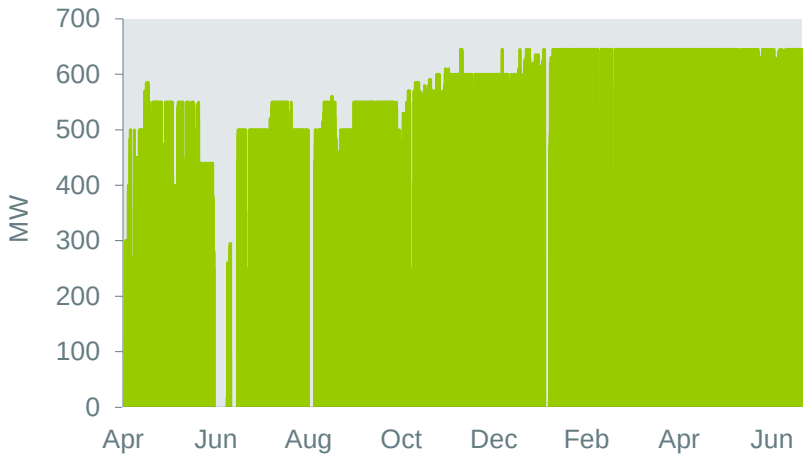
Operational performance (both units)

- 76% availability (H1 2013: 76%)
  - 7.5% forced outage rate (H1 2013: 13.1%)
  - 17.4% planned outage rate (H1 2013: 12.9%)
  - Expect availability matching coal from 2016
- 71% load factor (H1 2013: 57%)

Good progress with unit optimisation

- Investment to secure improved capacity and efficiency
  - £90m over 3 years (3 units)
- Successful grid flexibility test
  - Increased balancing activity

First Converted Unit Output



Physical Notifications: April 2013 - June 2014

Source: Drax, Balancing Mechanism Reporting Agent data

Business Review – Haven Power

Credit-efficient route to market

On track for 12 - 15TWh by 2015

- I&C and SME markets[1]

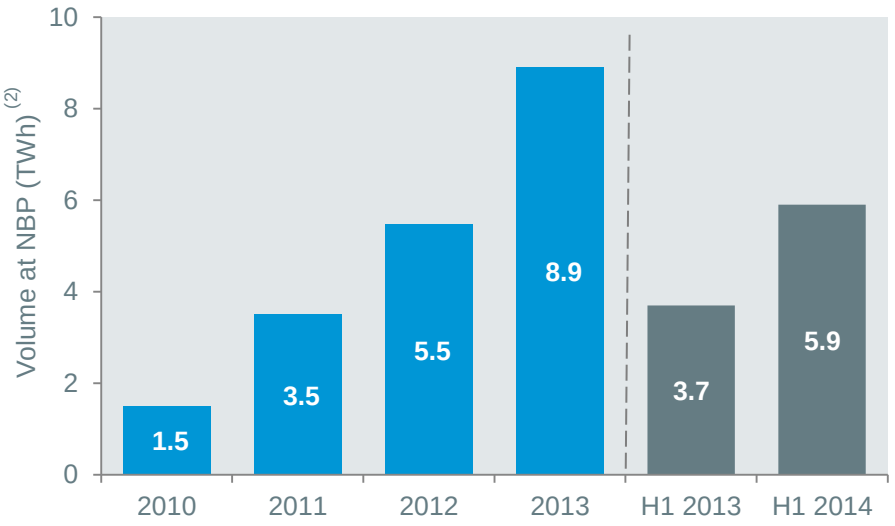
H1 2014 performance

- Retail sales £513m (H1 2013: £323m)
- 10.6TWh contracted for next 12 months
  - Excellent I&C renewal performance
  - Credit quality remains good with low bad debt experience
- Implementing mitigation strategy for Labour price freeze risk

Systems improvement continuing

- New customer portal well received
- Increased regulatory requirements

Haven Power Sales



Haven Customers

Experian™ A world of insight

YOUR LONDON AIRPORT Gatwick

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, windy weather in 2014

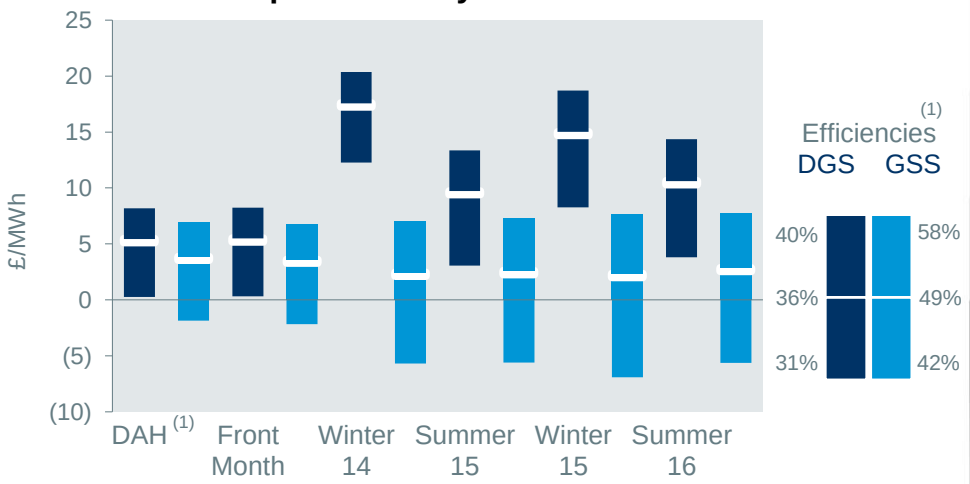
- Weak gas market, high gas storage
  - Weak power markets in 2014
  - Summer overnight change in merit order
- Lower 2014 ROC prices

Hedging

High baseload forward sales for 2014

- Hold capacity to near-term market for self-insurance
- Add shape to optimise

Forward Spreads – July 2014



Power Sales Contracted as at 21 July 2014	2014	2015
Power Sales – TWh	**25.3**	**12.4**
Comprising:		
Fixed Price TWh at Average Achieved Price £ per MWh	24.0 @ 52.0	10.1 @ 53.5
Fixed Margin Contracts TWh	1.3	2.3

(1) DGS = dark green spread, GSS = green spark spread, DAH = day ahead
Sources for chart: Spectron, Brokered Data, Drax assumptions
Based on market prices on 18th July 2014

Industrial Emissions Directive (IED)

Successful trials in 2014

- Low NOx burners and Selective Non-catalytic Reduction (SNCR)
- Confirmed need SNCR on all biomass units

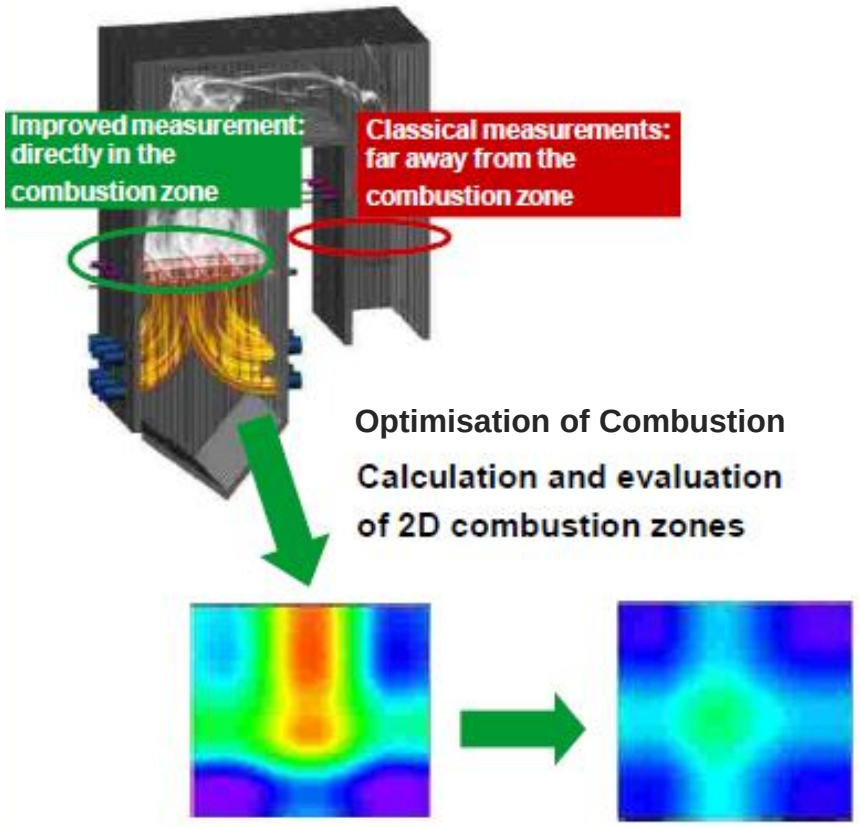
Lead case solution now verified

- Low NOx burners – all units
- SNCR – all units
- ZoloBOSS boiler laser monitoring – all biomass units
- £75m - £100m (over 4 years)
- Started execution

Solution benefits

- Compliant post 2020
- Maintains flexibility
- Unconstrained generation
- Coal sourcing flexibility

SNCR Trial – Boiler Laser Monitoring



Carbon Capture and Storage (CCS)

New 426 MW (gross) oxyfuel demonstration plant

- Drax, Alstom, BOC and National Grid
- 2 year feasibility study started in January 2014
  - Total cost to Drax £4m
- Final investment dependent on appropriate return to reflect technical and commercial risks

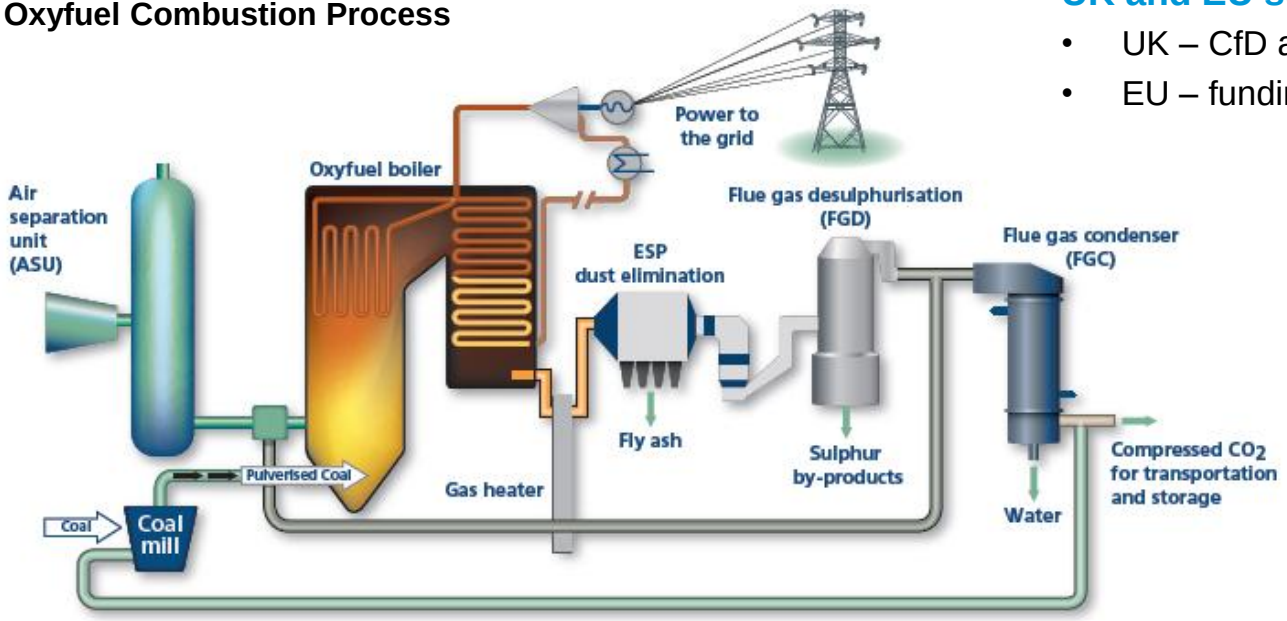
Project highlights

- 426MW gross / 300MW net capacity
- Power plant project cost c.£2bn
- 90% CO_2 capture rate – 2 Mt pa
  - Stored in saline formation 60 miles offshore
- Pipeline sized with up to 17Mt pa capacity
  - Future strategic option for Drax

UK and EU support

- UK – CfD and development grant
- EU – funding potential (NER 300)

Oxyfuel Combustion Process



Regulation – Base Case

		Unit	Support	Level	Operational	Notes:
Base Case	Biomass	1st Unit	RO	1.0 ROC	Q2 2013	
		2nd Unit(1)	RO	1.0 ROC	Q4 2014	
		3rd Unit	Early CfD	£105	2015/16	EU State aid clearance
	Coal	4th Unit 5th Unit 6th Unit				Wholesale market and retail sales

(1) Unit currently operating as enhanced co-firing unit prior to full conversion

Regulation – Base Case and Potential Upside

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Potential Upside	Biomass	2nd Unit	Early CfD	£105	Q2 2015	Legal challenge and EU State aid clearance
		4th Unit	Enduring CfD auction	TBC	2016/17	Budget availability
			RO	0.9/1.0 ROC	2016/17	

(1) Unit operating as enhanced co-firing unit prior to full conversion

Regulation – Base Case and Potential Upside

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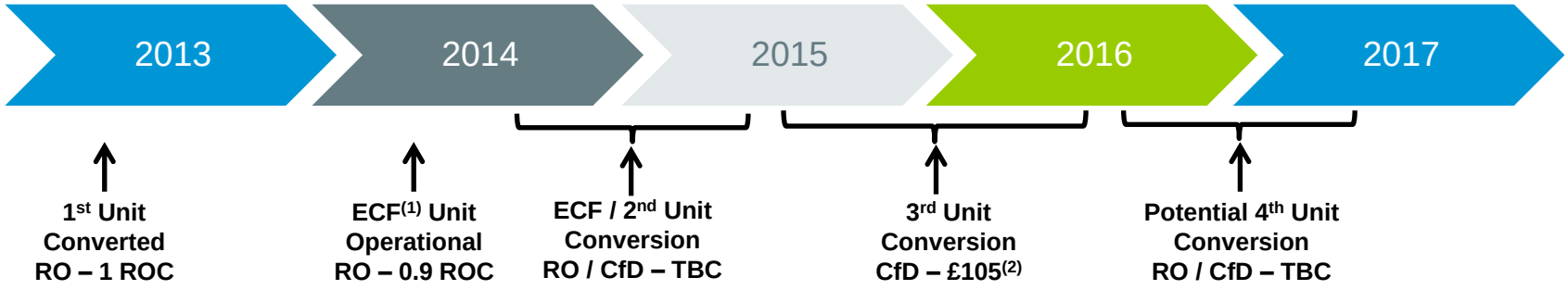
		4th Unit	Enduring CfD auction	TBC	2016/17	Budget availability
			RO	0.9/1.0 ROC	2016/17	
	Coal	Coal units	Capacity payment auction	TBC	2018/19 delivery	Auction participation (Q4 2014)
		Carbon Capture and Storage				

(1) Unit operating as enhanced co-firing unit prior to full conversion

Biomass – Delivering the Transformation



2014 – 2 high % biomass units

- Drax site construction complete Q3
- 6Mt pa of UK port and rail capacity fully operational by year end
- Biomass IED solution finalised and being implemented
- Possible conversion of 2nd unit under RO

2015 – 2 or 3 high % biomass units

- Conversion of 2nd unit in April if supported by CfD
- US construction complete and facilities operational
- 3rd unit CfD commissioning window July 2015 to July 2016

2016 – 3 unit transformation complete

- 3 converted units – with fuel supply, UK port and rail capacity secure
- Targeting 4th unit conversion 2016/17

(1) ECF = Enhanced Co-firing
(2) 2012 prices, CPI inflation

Biomass – Fuel Supply

Cost guidance £8.10/GJ (2014 prices)

- Incorporates foreign exchange hedging programme

Good progress with near-term volumes

- > 5Mt contracted for 2014/15 ROC year
- Disruption in EU demand assisting with near-term volumes

Negotiations progressing for 2nd and 3rd unit conversions

- Underpinned by Early CfD(s)
- Uncertainty caused by DECC eligibility decision causing some delays
- Converted unit load factors dependent on pace of biomass supply chain development

Evaluating increase in own pellet production

Biomass Transfer Tower – June 2014

Biomass – US Pellet Operations

US Gulf projects: on schedule and to budget

Pellet plants

- Amite (450kt pa) COD(1) Q1 2015
- Morehouse (450kt pa) COD Q2 2015
- Full capacity 6 months post COD

Port facility

- Baton Rouge (3Mt pa) COD Q1 2015

Options to expand US supply chain

Significant benefits from own pellet production

- Attractive returns and good quality fuel
- Optimise supply chain

Consolidation hub strategy

- US Gulf
  - Baton Rouge hub
  - Potential to accelerate investment in 3rd pellet plant – capacity 0.5Mt pa
- East coast
  - New port hub
  - Throughput from new Drax pellet plants and 3rd party suppliers

Amite Site – June 2014

(1) COD = commercial operations date

Biomass – Cost-effective Carbon Savings

Significant benefits of biomass conversion

Major carbon savings at Drax

- 3 converted units – c.12Mt pa(1)
- 4 converted units – c.16Mt pa(1)

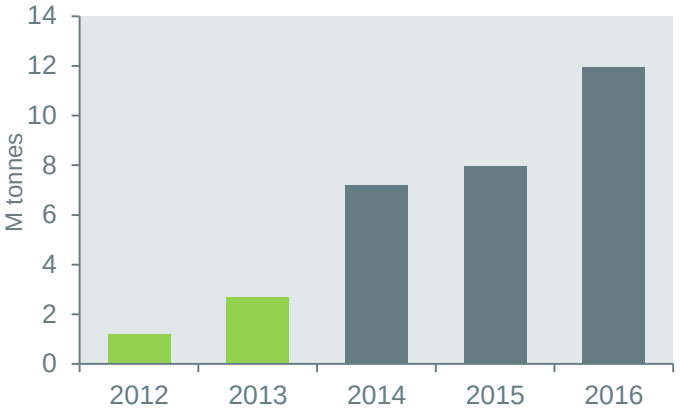
Consumer benefits of biomass vs. offshore wind

- Support for offshore wind c.100% higher

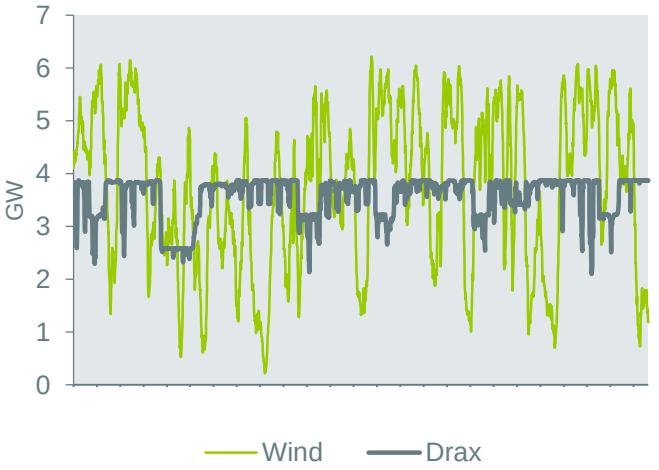
Additional benefits – security of supply

- Flexible and reliable generation
- No impact on system support costs

Indicative Future Drax Carbon Savings(1)



Drax vs. UK Wind Output (January 2014)



(1) Compared to equivalent coal-fired generation
Sources for charts: BMRA and Drax

H1 2014 Financial Review

Tony Quinlan – Finance Director

EBITDA

£102m

Net Debt(2)

£38m

Underlying Earnings Per Share(1)

9.4p

Interim Dividend

4.7p (£19m)

- H1 2014 profits – good operational performance for biomass and coal
- Year on year EBITDA reduction – increasing cost of UK carbon tax

- Biomass transformation
  - Investments delivering stronger business
  - Potential for further value enhancing biomass investments

1) Excl. unrealised losses on derivative contracts of £56m (less tax effect)

2) Cash and short-term investments of £279m less borrowings of £317m

Income Statement – Summary

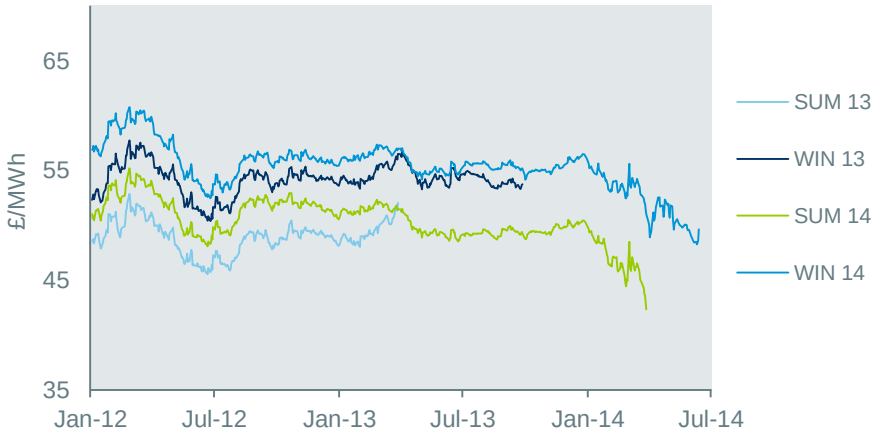
In £m (unless otherwise stated)	H1 2014	H1 2013	% Year-on-Year
Revenue	1,257	919	
Cost of Sales	(1,053)	(703)	
Gross Margin	**204**	**216**	
Operating Costs	(102)	(96)	
EBITDA	**102**	**120**	**-15%**
IAS39 Unrealised (Losses) / Gains on Derivative Contracts	(56)	123	
Depreciation	(42)	(29)	
Operating Profit	**4**	**214**	
Net Finance Costs	(15)	(8)	
(Loss) / Profit Before Tax	**(11)**	**206**	
Tax Credit / (Charge)	4	(42)	
Reported (Loss) / Earnings	**(7)**	**164**	
Underlying Earnings	**38**	**70**	
Reported Basic (Losses) / Earnings Per Share (pence)	**(1.7)**	**40.8**	
Underlying Basic Earnings Per Share (pence)	**9.4**	**17.3**	**-46%**
Total Dividend Per Share (pence)	**4.7**	**8.7**	

Income Statement – Revenue

In £m (unless otherwise stated)	H1 2014	H1 2013
Total Revenue	**1,257**	**919**
Wholesale Power Sales	706	576
Retail Power Sales	513	323
ROC and LEC Sales[1]	19	2
Other Income	19	18
Electrical Output (Net Sales) (TWh)	**12.9**	**12.6**
Average Achieved Price (£ per MWh)	**51.3**	**50.1**

- Increases in net sales volume and average achieved price
- Retail sales 5.6TWh (H1 2013: 3.6TWh)[2]
- ROCs and LECs sold in period
- Value of ROCs generated in period is deducted from cost of sales
- Ancillary services and other revenues

Power Prices



Sources: Brokered Trades, Spectron

(1) **Net of intercompany eliminations of £19m**
(2) **At Customer Meter**

Income Statement – Cost of Sales

In £m (unless otherwise stated)	H1 2014	H1 2013
Total Cost of Sales	**1,053**	**703**
Fuel Costs[1]	351	324
Carbon Tax	49	14
Cost of Carbon Allowances	44	70
ROCs and LECs Sold or Utilised	38	1
Cost of Power Purchases	350	146
Generation Grid Charges	36	31
Retail Grid Charges and Other Retail Cost of Sales	185	117
Average Fuel Cost (excl. CO_2 costs)[2]	**£27.2/MWh**	**£25.8/MWh**
Number of Purchased CO_2 Allowances Expensed	**8.6m**	**10.2m**
Average Cost of Purchased CO_2 Allowances	**£5.2/tonne**	**£6.9/tonne**

- Cost of coal and biomass: £483m (£37.5/MWh)
  - H1 2013: £365m (£28.9/MWh)
- Less value of ROCs generated: £132m (£44/MWh)
  - H1 2013: £41m (£48/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

- ROCs / LECs sold: £19m
- Utilised at Haven: £19m

- Increasing intermittent generation in UK leading to more balancing activity and power buy-backs

- Retail sales 5.6TWh (H1 2013: 3.6TWh)[3]

(1) Includes cost of fuel sold of £9m (H1 2013: £4m)
(2) Excludes carbon tax (charged on coal deliveries and recognised as fuel cost on burn)
(3) At Customer Meter

Operating Costs

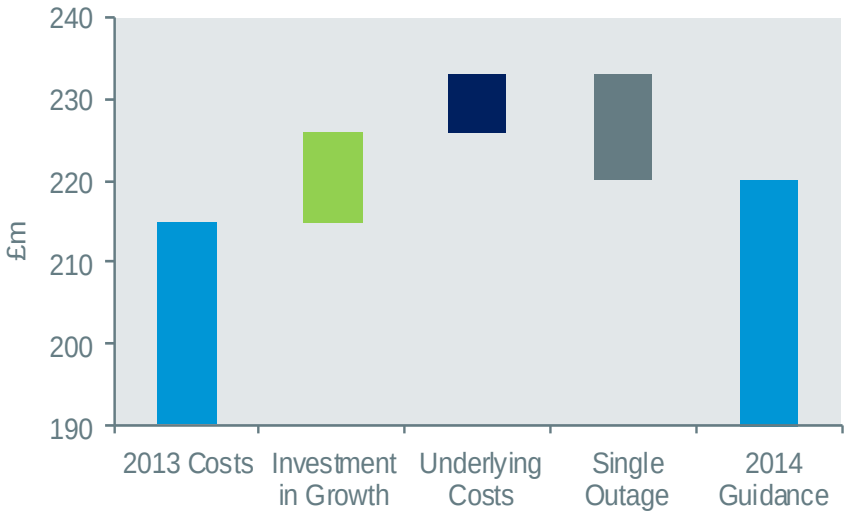
Operating costs – £102m in H1 2014

H1 2014 total operating cost £6m increase

Full year 2014 operating cost guidance unchanged at £220m (2013: £215m)

- Investment in growth (US business, CCS): £11m
- Underlying cost inflation: +£7m (3%)
- Single outage year: -£13m
- Phasing reflects US running costs prior to start of operations

2014 Operating Cost Guidance



Capital Expenditure

Biomass transformation capex on schedule and budget

H1 2014 £123m

- Including £88m for transformation

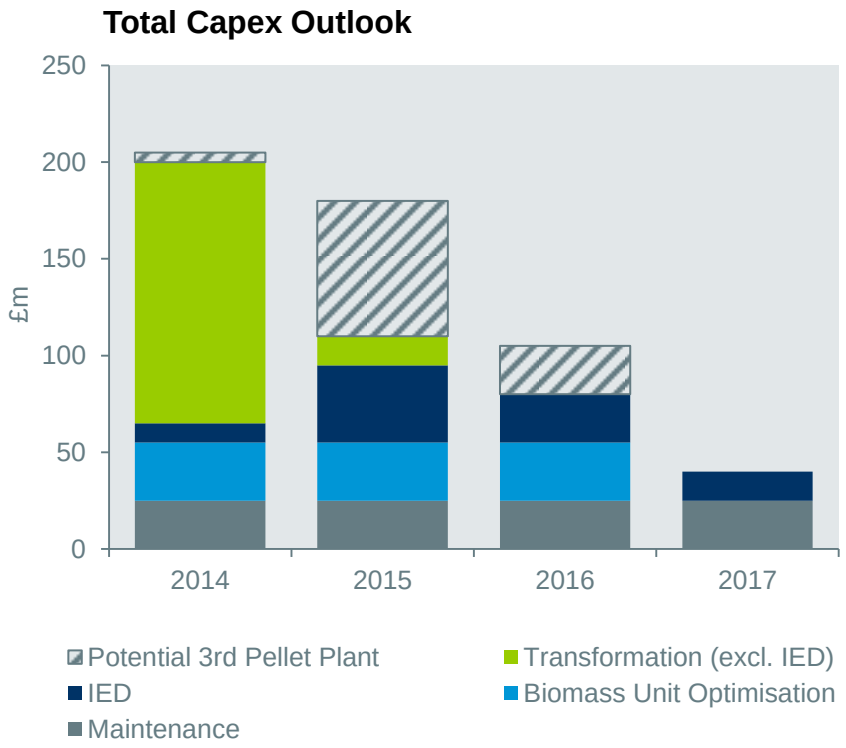
2014 capex guidance c.£200m

Capex outlook

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

Evaluating further investments in:

- Biomass supply chain
  - 3rd US Gulf pellet plant
  - US East coast pellet operations
- 4th unit conversion



Value of Plant Flexibility

Plant flexibility will command increasing value going forward

Inflexible wind capacity increasing

- Wind output now ranges from nil – 12GW
  - NG(1) forecast 18GW by 2018
- Summer overnight demand is c.20GW

Increasing system balancing support

- Flexible plant provides balancing reserve
- Drax biomass and coal units well placed to capture incremental margin
  - Flexible units 200MW - 630/645MW

Value of flexibility – option to generate or not

Case study – Drax Unit (5th June)

(1) Forward power sales

(2) Overnight price falls

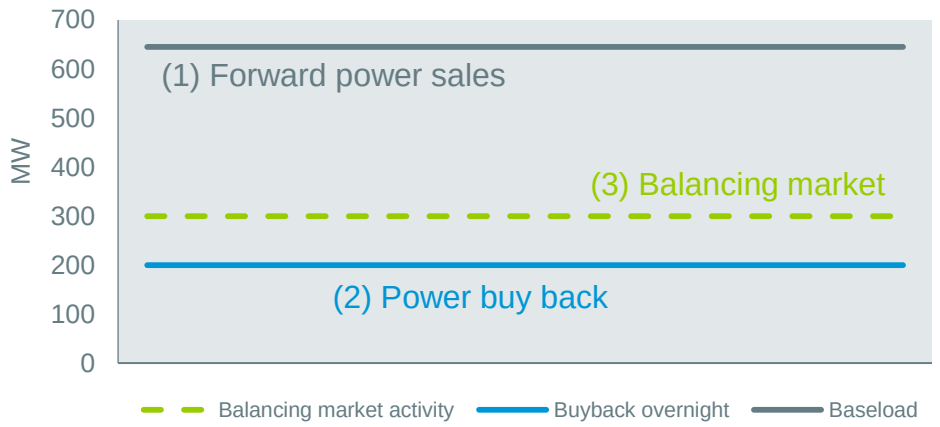
- Power bought back
- Output reduced to minimum load

(3) NG required balancing reserve

- Power sold to NG in BM(2)
- Output increased to 300MW

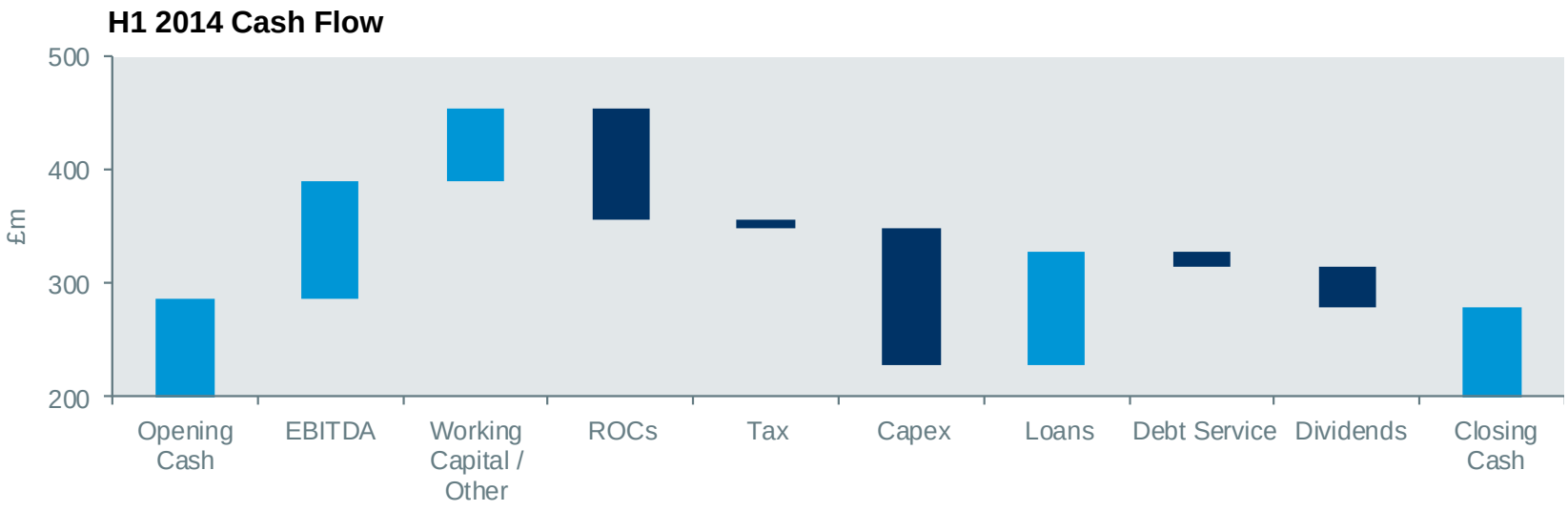
Value of plant flexibility – £100k in 1 night

Drax Unit Overnight (5th June)



(1) National Grid
(2) Balancing Market
Source for chart: Drax data

Cash Flow



Working Capital / Other	ROCs / LECs	Tax	Capex	Dividends	Closing Cash
£64m	(£98m)	(£7m)	(£120m)	(£36m)	£279m
Biomass stocks increase (£39m) 0.3Mt increase to 0.6Mt Coal stocks decrease £11m 0.3Mt decrease to 1.9Mt Other net inflow £92m Increase in creditors (Carbon, Haven ROC accrual)	Increase in ROCs / LECs	Payments in respect of 2012/13 £7m	Cash payments for capex	Final 2013 dividend of 8.9p/share	Net debt after borrowings £38m

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

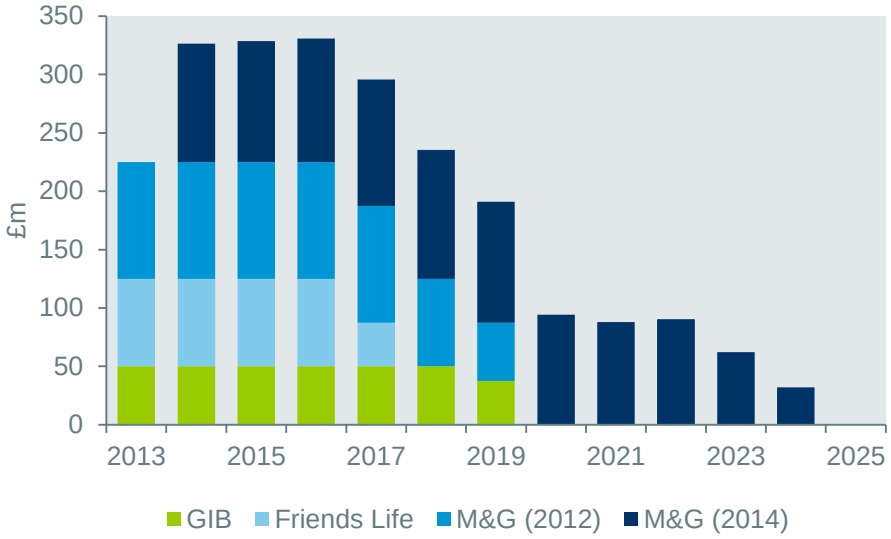
Other facilities

- £400m working capital and LC[3] facility
  - Matures April 2016
- Commodity trading line

Credit rating BB+

- Robust sub-investment grade business model

Term Loan Maturity Profile



Cash flow management

£80m ROC monetisation facility

- Sale of ROC receivables – accelerates cash flows

Distributions

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

(1) GIB = UK Green Investment Bank
(2) I-UK = Infrastructure UK
(3) LC = Letter of Credit

Summary

H1 2014 performance

- Good operations
- Year on year EBITDA reduction – increasing cost of UK carbon tax

Biomass transformation

- Capex on schedule and budget
- Investments delivering a stronger business

Looking ahead

- Well placed to capture increasing value from plant flexibility
- Attractive potential biomass investment opportunities
- Determine optimal capital structure and distribution policy as regulation clarifies

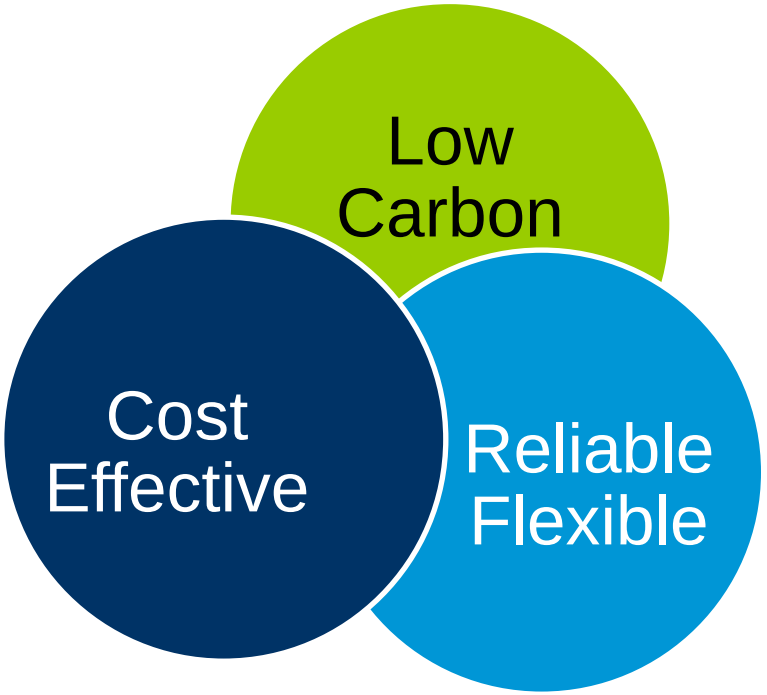
Dome Storage – June 2014

Conclusion

2014
Foundation year

2015
Increased conversions

2016
Transformation delivered



Predominantly renewable power provider

Questions

Appendices

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

Dust Extraction System – June 2014

Appendix 1: Definitions

API2/4/6		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.
	AVERAGE ACHIEVED PRICE	Power revenues divided by volume of net sales (includes imbalance charges).
BM	BALANCING MECHANISM	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.
CESP	COMMUNITY ENERGY SAVING PROGRAMME	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.
DECC	DEPARTMENT FOR ENERGY AND CLIMATE CHANGE	
	DIRECT INJECTION	A process whereby biomass is fed directly (i.e. avoiding the pulverising mills) to the burners situated in the boiler walls.
EBITDA		Profit before interest, tax, depreciation, amortisation and unrealised gains/(losses) on derivative contracts.
ELV	EMISSION LIMIT VALUES	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.
EUA	EU ALLOWANCE	European Union Allowances, the tradable unit under the EU ETS. Equals 1 tonne of CO_2.
EU ETS	EU EMISSIONS TRADING SCHEME	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.
IUK	INTERCONNECTOR UK	Sub sea gas pipeline and terminal facilities providing a bi-directional link between the UK and continental European energy markets.
LCPD	LARGE COMBUSTION PLANT DIRECTIVE	European Union Large Combustion Plant Directive sets emission standards for NO_X, SO_2 and particulate from all Large Combustion Plant (>50MW).
LEC	LEVY EXEMPTION CERTIFICATE	Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Appendix 1: Definitions (cont.)

LNG	LIQUIFIED NATURAL GAS	
LTIR	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.
NERP	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.
NOx		Nitrogen oxides, emissions of which are regulated under the LCPD.
OFGEM	OFFICE FOR GAS AND ELECTRICITY MARKETS	
	OPTED-IN / OPTED-OUT	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.
	ADVANTAGED FUELS	Fuel that gives a price advantage against standard bituminous coals. Such fuels include, off specification coals and petcoke.
RO	RENEWABLES OBLIGATION	The obligation placed on licensed electricity suppliers to deliver a specified amount of their electricity from eligible renewable sources.
ROC	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.
ROSPA	ROYAL SOCIETY FOR THE PREVENTION OF ACCIDENTS	
SNCR	SELECTIVE NON CATALYTIC REDUCTION	
SO_2		Sulphur dioxide, emissions of which are regulated under the LCPD.
TRIR	TOTAL RECORDABLE INJURY RATE	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries)/ hours worked * 100,000.
UKCS	UK CONTINENTAL SHELF	Gas reserves found off shore in UK waters.
UK NAP	UK NATIONAL ALLOCATION PLAN	Allocation of UK emissions allowances at the national level to individual sites under EU ETS.

Appendix 2: Tax Reconciliation

UK CT rates

- 21.5% for 2014 and 23.25% for 2013

2014 tax rate guidance

- Close to or just below CT rate (21.5%)

Tax Reconciliation

	Reported		Underlying	
In £m (unless otherwise stated)	**H1 2014**	**H1 2013**	**H1 2014**	**H1 2013**
(Loss) / Profit Before Tax	**(11)**	**206**	**45**	**84**
Tax at UK CT rate	(2)	48	10	19
Adjustment to Prior Year Taxes	(2)	(6)	(3)	(6)
Tax (Credit) / Charge	**(4)**	**42**	**7**	**13**
Effective Tax Rate	**n/a**	**20%**	**16%**	**16%**

Appendix 3: Fuel and ROC Reporting

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

Income statement – cost of fuel

- 2014 £351m (£27.2/MWh), comprising:
  - Cost of coal and biomass
  - Less estimate ROC / LEC value generated

Balance sheet - ROC / LEC assets

- £237m at 30 June 2014, 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

H1 2014 Income Statement – Fuel Costs

Net Fuel Cost Comprises:	£m	£/MWh
Coal, Carbon Tax and Biomass	483	37.5
ROC / LEC Value Generated	(132)	(44.3)

H1 2014 Balance Sheet – ROC and LEC Assets

ROC and LEC Assets	£m
At 31 December 2013	**140**
ROCs / LECs Generated	132
Purchased	3
Sold or Utilised	(38)
At 30 June 2014	**237**

Appendix 4: Financial Calendar

Event	Date
Announcement of Half Year Results	29 July
Interim Management Statement	Mid November
Financial Year End	31 December
Announcement of Full Year Results	24 February 2015

Appendix 5: IAS 39 Treatment

Financial Instrument	Location of Gains and Losses in the 2014 Half Year 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 weaker in 2014 – driven by gas market

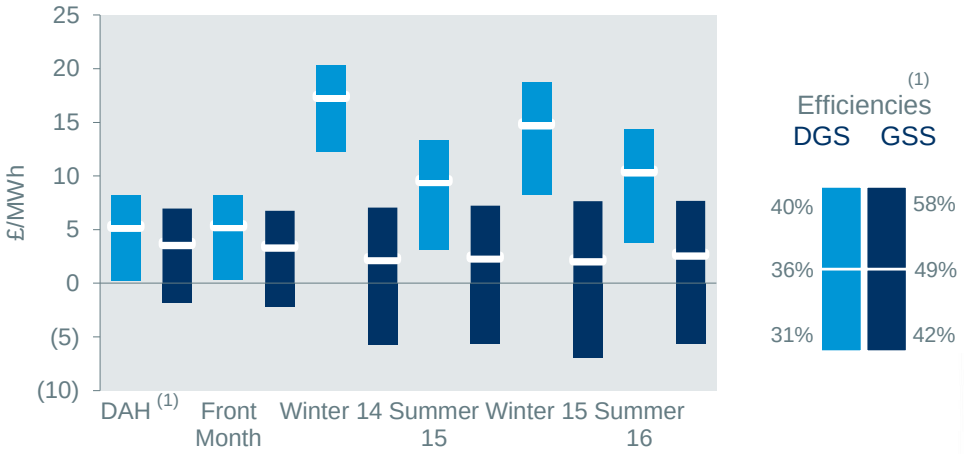
Dispatch dynamics

Plant efficiencies significant factor in load profile

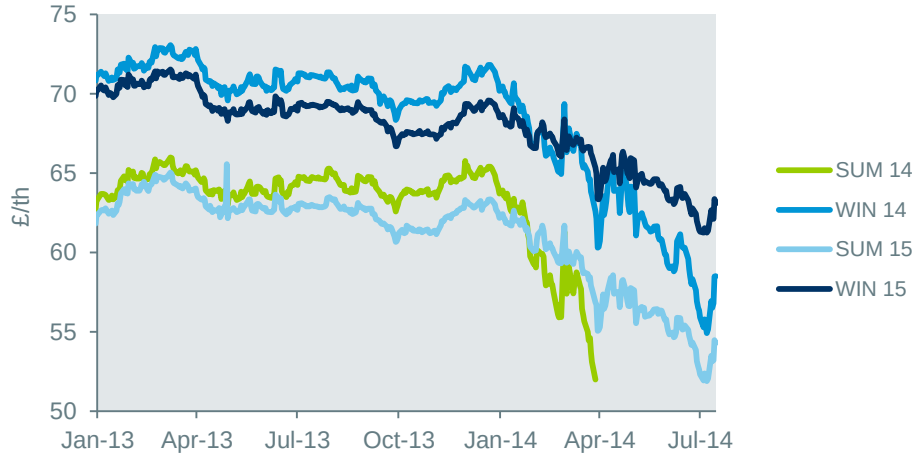
- Different load factors for same fuel plant
- Low GSS resulted in gas plant capacity withdrawn / considered for closure
- All opted-out coal plant now closed
  - Ironbridge converted to biomass until Dec 15
- Oil-fired plant closing prior to full utilisation of running hours
  - Littlebrook announced April 15 closure
- Summer overnight change in merit order

Wind capacity / output continues to grow

Range of Market DGS and GSS by Efficiency (Baseload)



UK NBP Gas Price



(1) DGS = dark green spread, GSS = green spark spread, DAH = day ahead
Sources for chart: Spectron, Brokered Data, Drax assumptions
Based on market prices on 18th July 2014

Appendix 7: Gas Market

Mild winter across Europe

- UK storage levels above seasonal norms

UK has witnessed a pick up in LNG deliveries in the near-term

- No guarantee that the UK will continue to receive high LNG volumes

High storage inventories and strong LNG delivery supressed Summer 2014 prices

- Spot market down relative to the curve

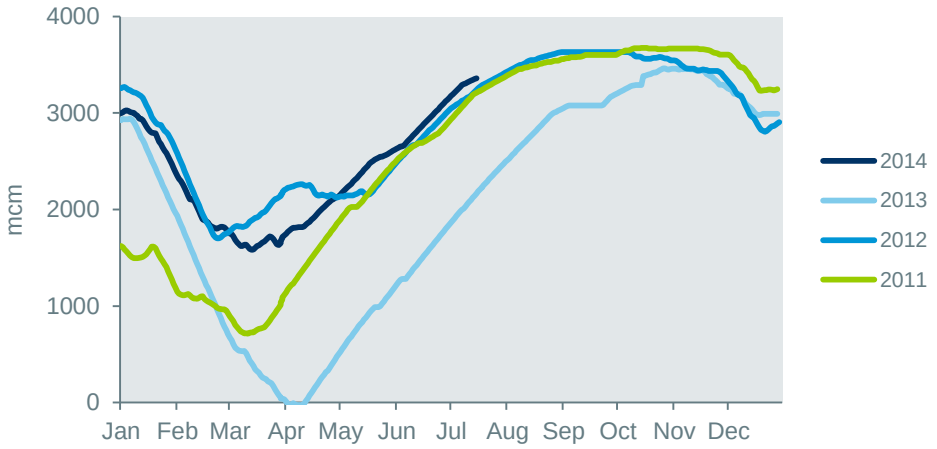
Longer-term UK gas prices remain strong

- Prices pulled towards oil-indexed European prices to attract imports

Fukushima impact on global LNG market continues

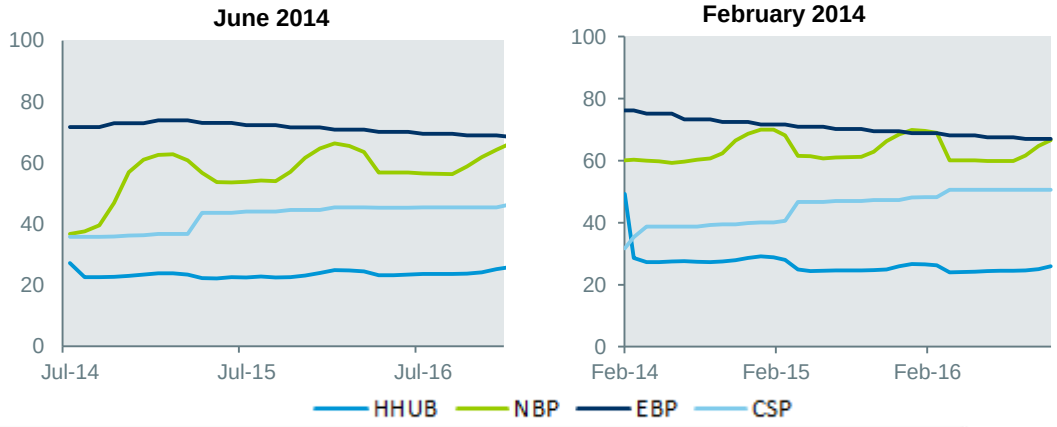
- Japanese nuclear constrained
  - 0 of 54 reactors currently in operation

UK Gas Storage Year on Year



Data Source: Thompson Reuters

NBP, Henry Hub and EBP™ Index Forward Curves



Source: European Benchmark Price (EBP™ Index): Eclipse Energy Group, NBP and Henry Hub: Bloomberg and Brokered Trades. EBP is a trademark owned by Eclipse Energy Group
CSP – Coal Switching Price

Appendix 8: Coal Market

Global steam coal market remains oversupplied

- Prompt prices recently fell to 5 year lows - $72/t API2
- Some producers have looked to increase production to reduce unit costs

Chinese steam coal seaborne imports continue to grow, but at slower rate

- Up 13% from Q1-13 to Q1-14
- Stock levels remain high
- Indigenous producers are cutting prices

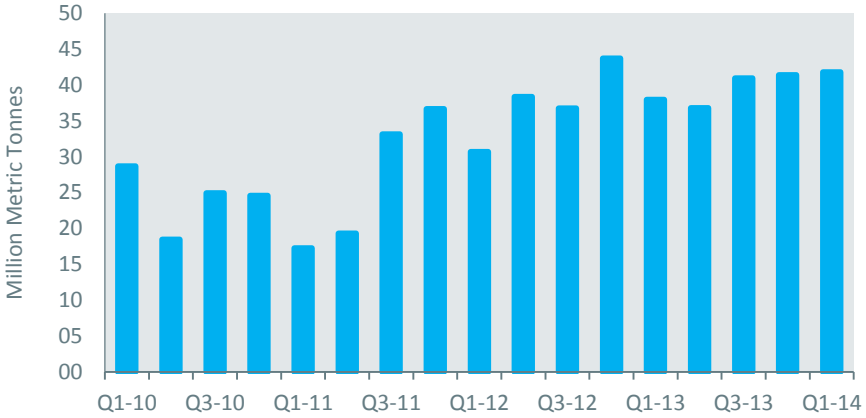
US exports to EU beginning to fall

- Lower global prices reduce attractiveness of exports
- EU imports from US down 7% in 2013
- A cold winter in US increased US gas price

UK domestic coal production under pressure from low international prices

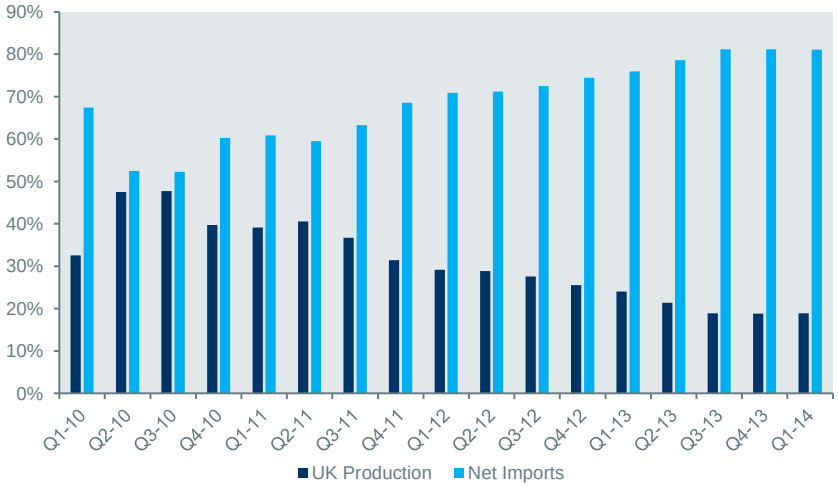
- Indigenous production fell 25% in 2013
- Deep mined production down 34%
- UK production down 27% from Q1-13 to Q1-14
- GBP reached 6 year high against USD

Chinese Seaborne Steam Coal Imports



Source: IHS CERA's Global Steam Coal Advisory Service

UK Indigenous Coal Production vs. Net Imports



Source: Digest of UK Energy Statistics (DUKES)

Appendix 9: Carbon Market

Phase III EUA ETS – recovery from 2013 lows

- Back-loading now approved
  - 900Mt removed between 2014 – 2016
  - Reintroduced back end of decade
- Some economic revival in EU iron and steel production
- All 2013/14 free allowances issued

Downward pressure remains

- Sales from industrial sectors increase
- Potential for more free allowances between 2015-19
- Lower coal burn may impact demand

EU Council continue to review 2030 European Climate and Energy Policy Framework

- EU elections may impact future decisions
- Challenge remains to get all member states to agree targets

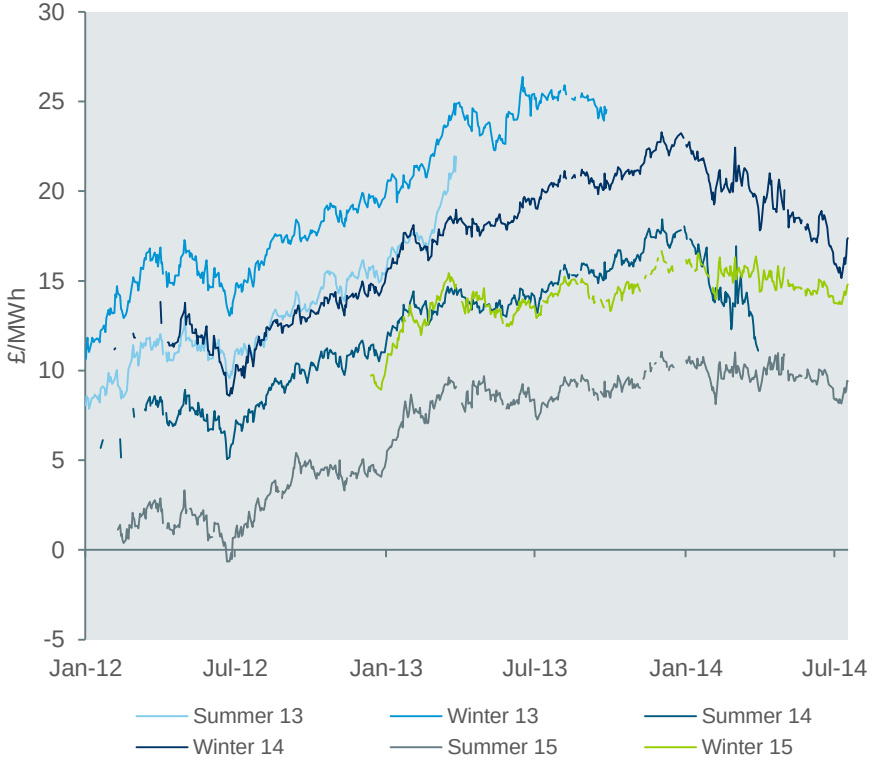
Carbon Prices

Source: ICE ECX

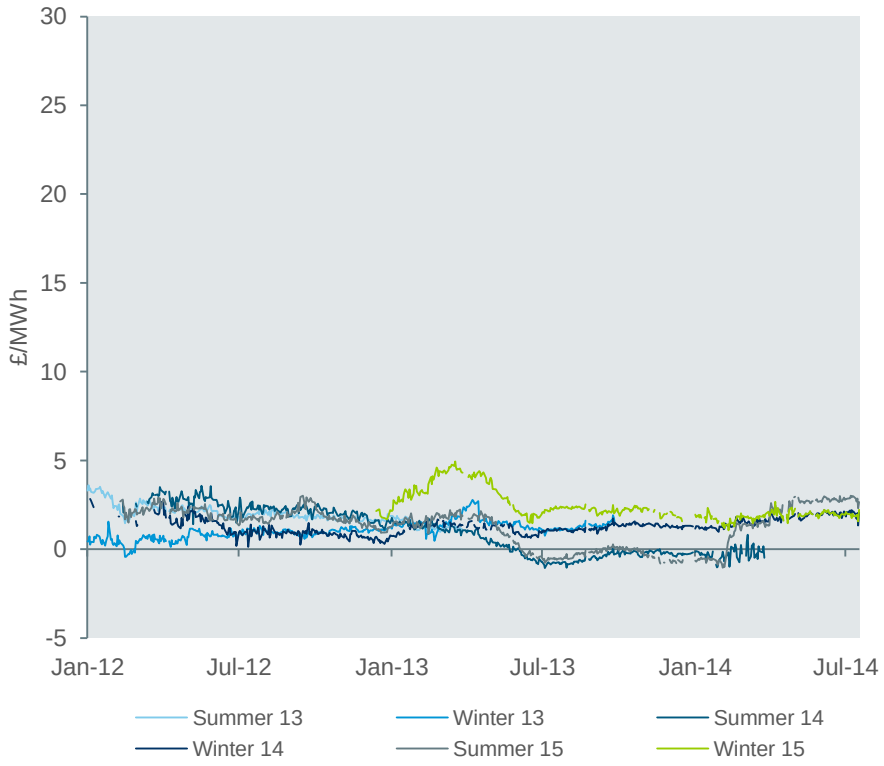
Prices as of 18th July 2014

Appendix 10: Forward Spread Movements

Dark Green Spread



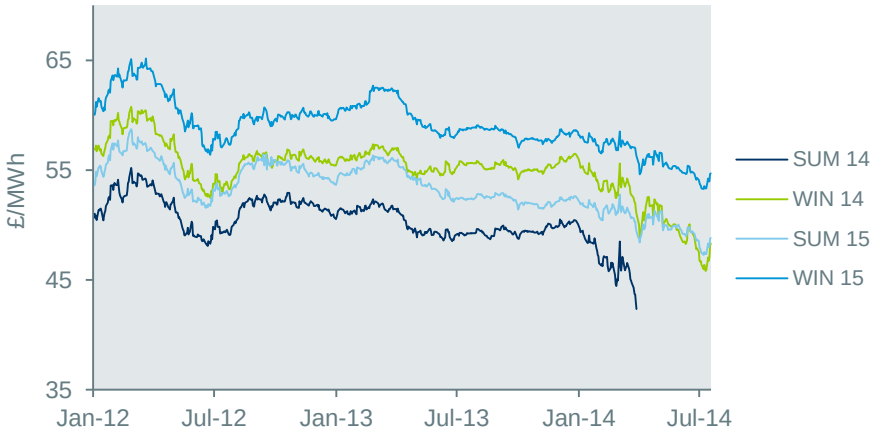
Green Spark Spread



ource: Drax. Assumed typical efficiencies: Dark Spread - 36%, Spark Spread – 49%
Prices as of 18th July 2014

Appendix 11: Commodity Price Movements

Power Prices

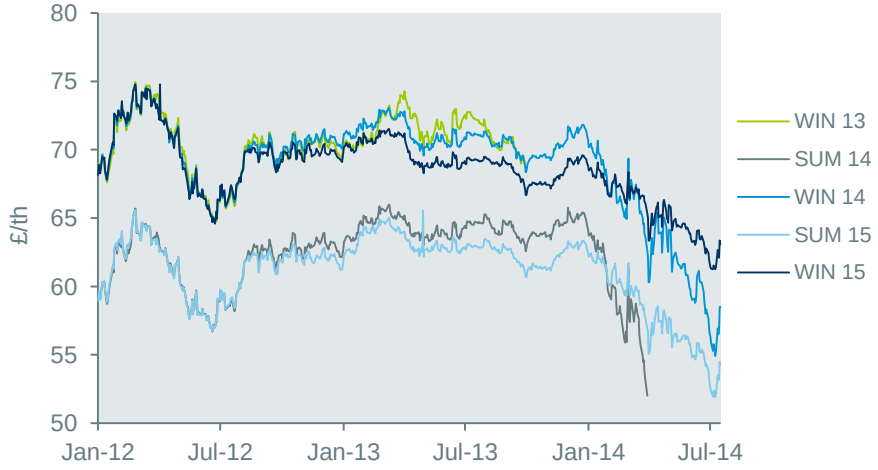


Sources: Brokered Trades, Spectron

Coal Prices (API 2)

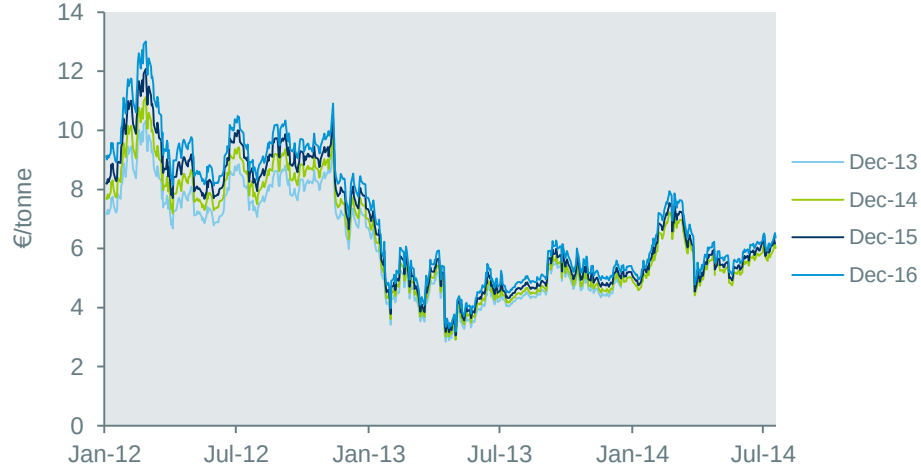
Source: McCloskeys, Brokered Trades

UK NBP Gas Price



Source: Spectron

Carbon Prices



Source: ICE ECX

Appendix 12: LCPD and IED

Installation	Operator	Fuel	Installed Capacity (MWe)	Capacity Opted In (MW)	Capacity Opted Out (MW)	Opted Out Hours Remaining (Elexon – June 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
Total			**31301**	**19899**	**11402**		

Source: Elexon, Oxera, Drax data as at June 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

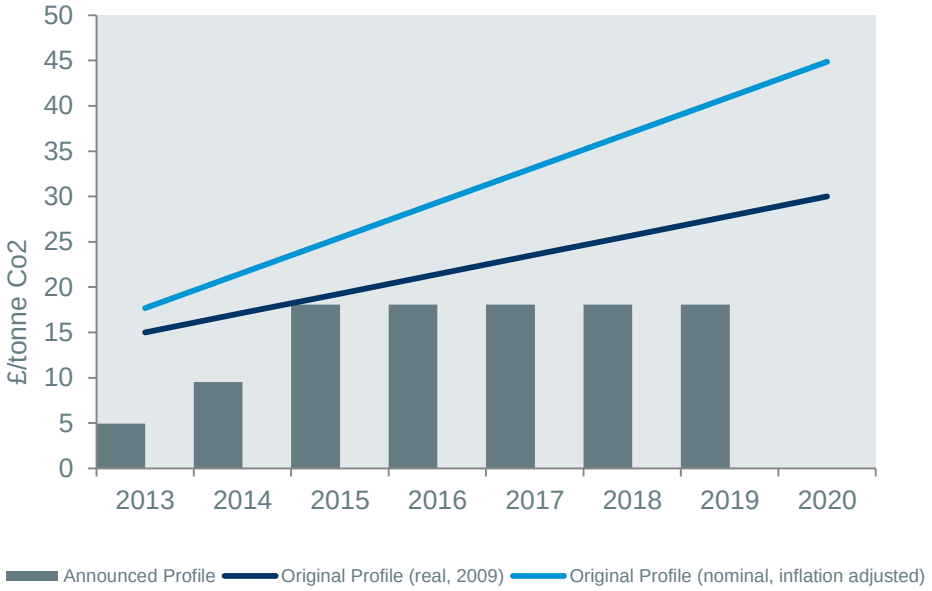
Tax per tonne CO_2 set annually – 2 years in advance

- Based on difference between government's (HMT) target carbon price trajectory and traded price
- For 2013/14 this is c.£5/tonne CO_2; equivalent to c.£12/tonne coal
- For 2014/15 this is c. £10/tonne CO_2; equivalent to c.£23/tonne coal
- For 2015/16 this is £18/tonne CO_2; equivalent to c.£43/tonne coal

2013/14 Budget

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

HMT Projected Carbon Price Floor to 2020



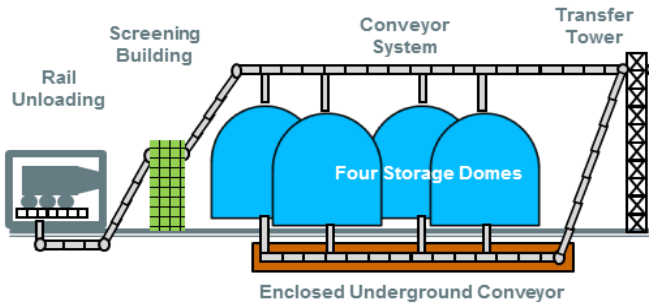
Appendix 14: ROC Banding and CfD Strike Prices

Technologies	ROC Support	CfD Support[2]				
		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[1]	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					

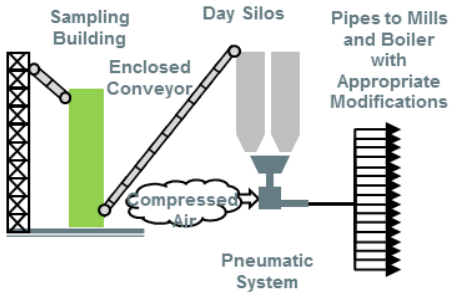
(1) Excluding allowance of up to 10% additives
(2) CfD prices in 2012 terms, plus inflation

Appendix 15: Drax Site Development Schematic

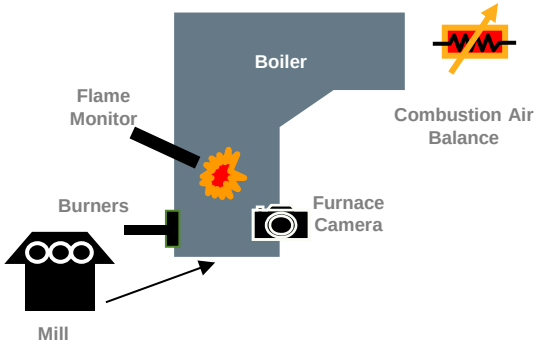
Rail Unloading and Storage



Fuel Distribution



Combustion



Half Year Results

6 Months Ended 30 June 2014

29 July 2014