Preliminary Results

12 Months Ended 31 December 2014

24 February 2015

Group Structure

drax

draxbiomass
A Drax Group company

Biomass
Self-supply

draxpower
A Drax Group company

Generation
Markets and Trading
Fuel

havenpower
A Drax Group company

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

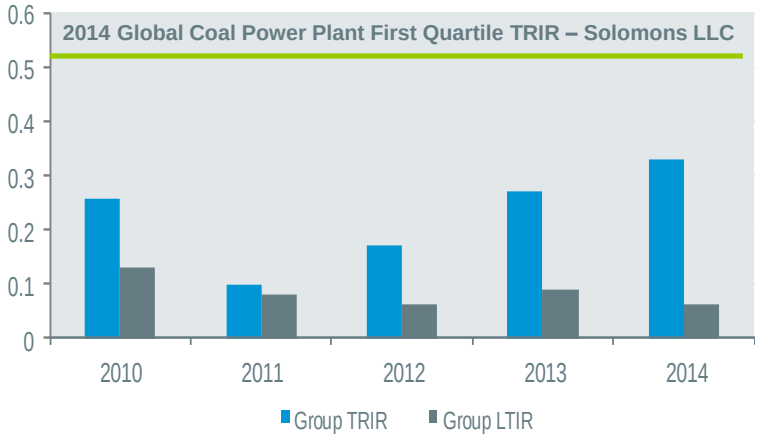
- Fully compliant in 2014
- Delivering > 80% carbon lifecycle savings vs. coal
- Thorough PWC independent audit process

DECC working towards October 2015 mandatory standards

Sustainable Biomass Partnership

- Industry sustainability standard to be launched March 2015

Safety Performance



TRIR = total recordable injury rate, LTIR = lost time injury rate

GHG(1) Life Cycle Emissions vs. Fossil Fuels

Drax Biomass in 2014	GHG Target 2015-2020(2)	Gas(3)	Coal(4)
34g CO_2/MJ	79g CO_2/MJ	193g CO_2/MJ	280g CO_2/MJ

(1) GHG = Green House Gas
(2) DECC proposed target (includes emissions from transportation)
(3) Source: Friends of the Earth, Russian piped gas
(4) 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

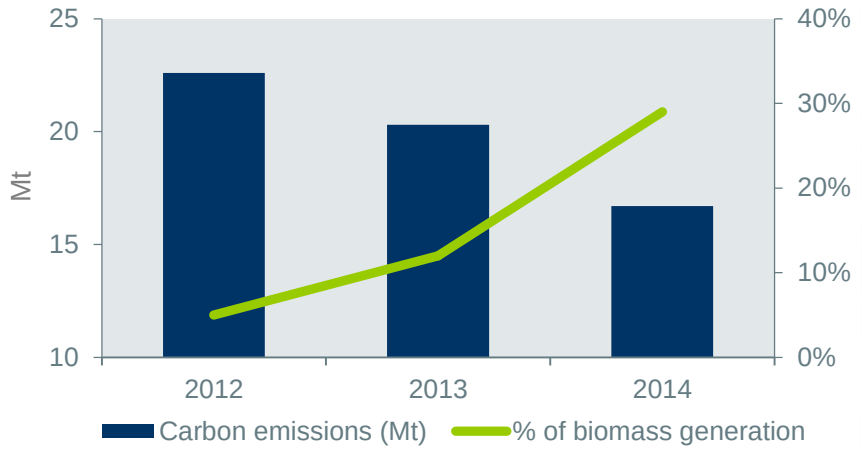
Carbon Capture and Storage

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

Generation by Fuel Type

Generation (Net Sales)		2014		2013	
Coal	TWh	18.8	71%	23.3	88%
Biomass	TWh	7.9	29%	2.9	12%
Total	**TWh**	**26.7**		**26.2**	

Biomass Generation and Carbon Abatement



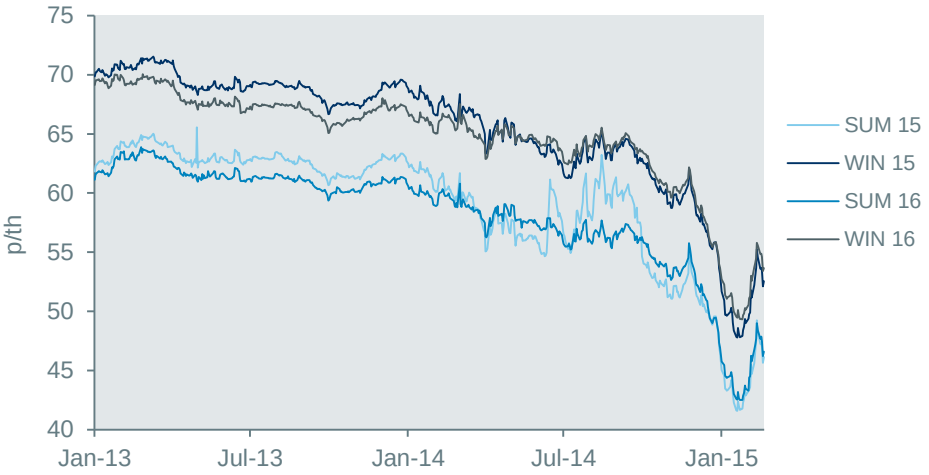
Drax Power – Markets and Trading

Market developments

Commodity outlook challenging

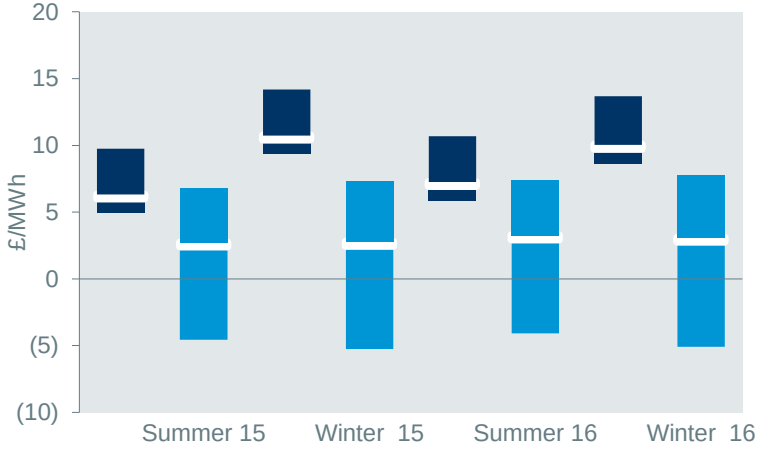
- Falling oil prices
- Mild winter across Europe
  - Weak gas market, high gas storage
  - Weak power markets
- International coal remains weak
- Lower 2014/15 ROC prices
  - Recycle fee pressure

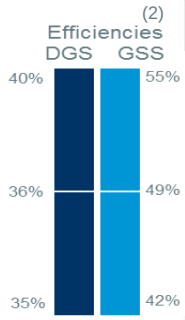
UK Gas Prices(1)



Group Power Sales Contracted at 16 February	2015	2016
Power Sales – TWh	**20.4**	**9.4**
Comprising:		
Fixed Price TWh at Average Achieved Price £ per MWh	18.0 @ 50.8	8.0 @ 49.4
Fixed Margin Contracts TWh	2.4	1.4

Range of Fossil Fuel Spreads by Efficiency (Baseload)





(1) At NBP (National Balancing Point) (2) DGS = dark green spread, GSS = green spark spread
Sources: Spectron, Brokered Data, Drax assumptions, based on market prices on 20th February 2015

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)

Biomass Rail Wagons

drax power
A Drax Group company

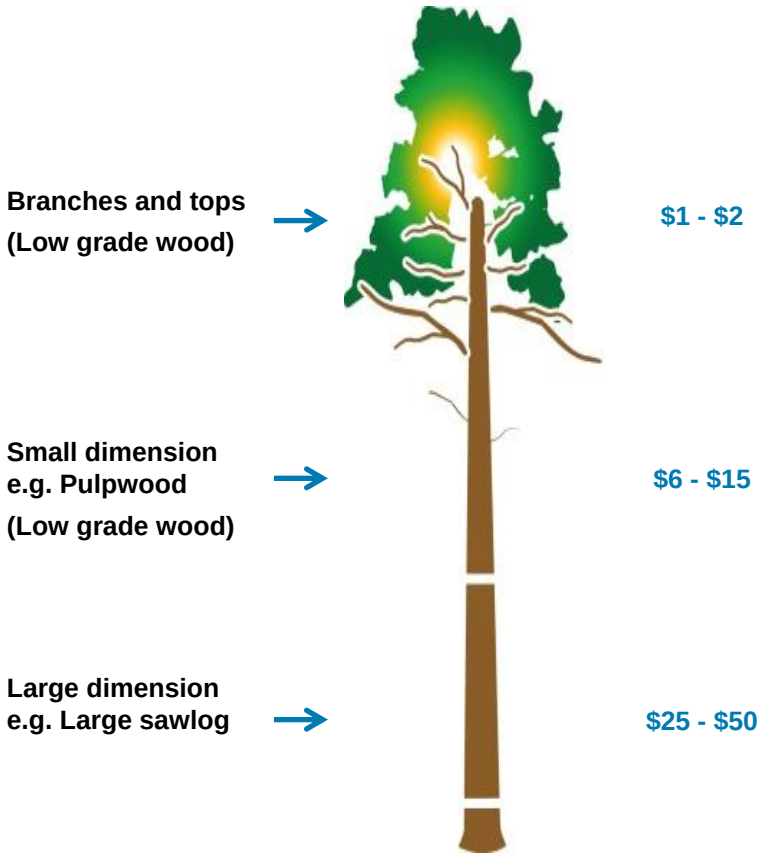
Drax Power – Fuel: Forestry Economics

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)



Stumpage = value of standing timber
c.2.2 short tons of low grade wood = 1 metric tonne of pellets

Drax Power – Fuel: Biomass Sourcing

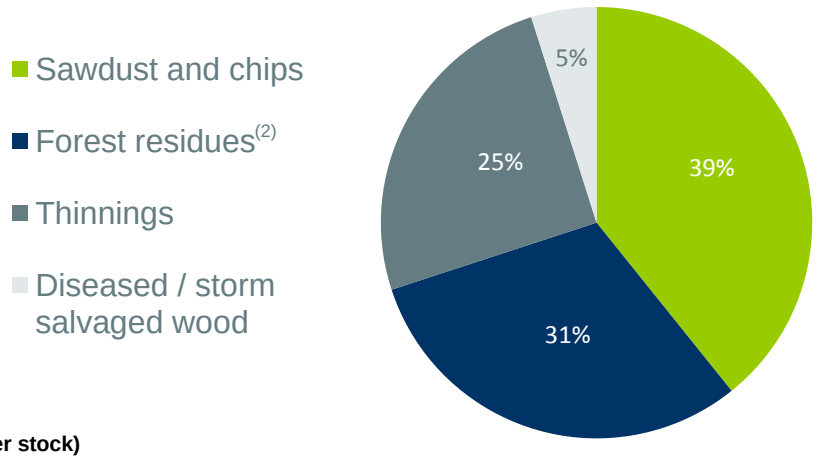
Drax fuel supply

- 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

Drax Woody Biomass Sourcing by Product and Region

2014 Burn	Sawdust and Chips	Forest Sourced(1)	Total(4)	Mix %
US	0.4Mt	1.9Mt	**2.3Mt**	**59%**
Canada	0.8Mt	0.1Mt	**0.9Mt**	**23%**
Other	0.3Mt	0.4Mt	**0.7Mt**	**18%**
Total	**1.5Mt**	**2.4Mt**	**3.9Mt**	**100%**
Mix %	**39%**	**61%**	**100%**	

Drax Woody Biomass Sourcing by Product (2014 Burn)



(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)

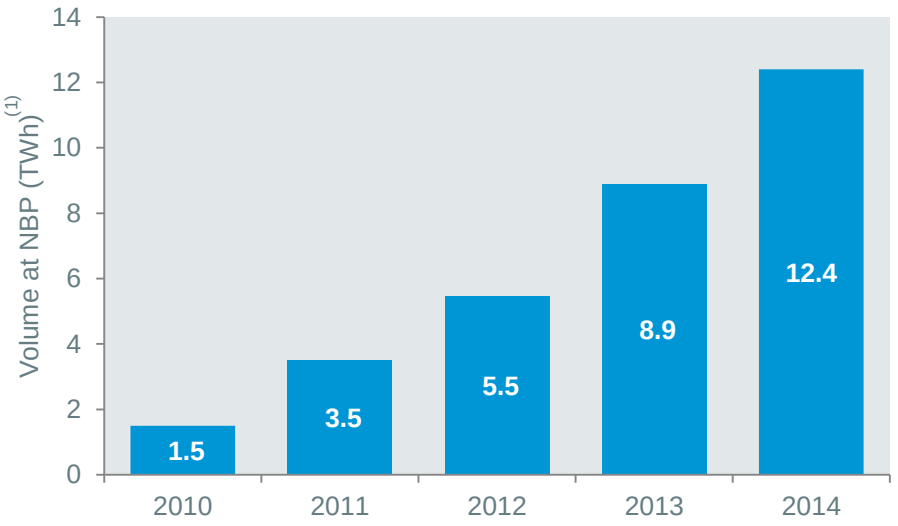
2014 performance

- 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 2nd in both Major Energy Buyers and SME surveys

Systems improvement continuing

- Increased regulatory requirements delivered
- Customised arrangements for large accounts

Haven Power Sales



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

Hammer Mills – Morehouse, October 2014

Options to expand US supply chain

Significant benefits from own pellet production

- Optimise supply chain
- US Gulf – Baton Rouge hub
  - Evaluating investment in 3rd 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

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

(1) Net settlement of Community Energy Saving Programme

Drax Power – Gross Profit

In £m (unless otherwise stated)	2014	2013	% Year-on-Year
Revenue[1]			
Power Sales	2,080	1,669	
ROC/LEC Sales	315	63	
Ancillary Services Income	13	12	
Other Income[2]	42	36	
	2,450	**1,780**	**38%**
Cost of Sales			
Generation Fuel Costs	(1,076)	(842)	
ROC/LEC Support	359	144	
Carbon Tax	(118)	(62)	
Cost of Carbon Allowances	(76)	(124)	
ROCs/LECs Sold or Utilised	(314)	(62)	
Cost of Power Purchases	(710)	(334)	
Grid Charges	(82)	(70)	
	(2,017)	**(1,350)**	**50%**
Gross Profit	**433**	**430**	**1%**

- 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

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

Haven Power – Gross Profit

In £m (unless otherwise stated)	2014	2013	% Year-on-Year
Revenue	**1,090**	**751**	**45%**
Cost of Sales			
Cost of Power Purchases	(629)	(455)	
Grid Charges	(253)	(168)	
Other Retail Costs	(191)	(112)	
	(1,073)	**(735)**	**46%**
Gross Profit	**17**	**16**	**6%**

- 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

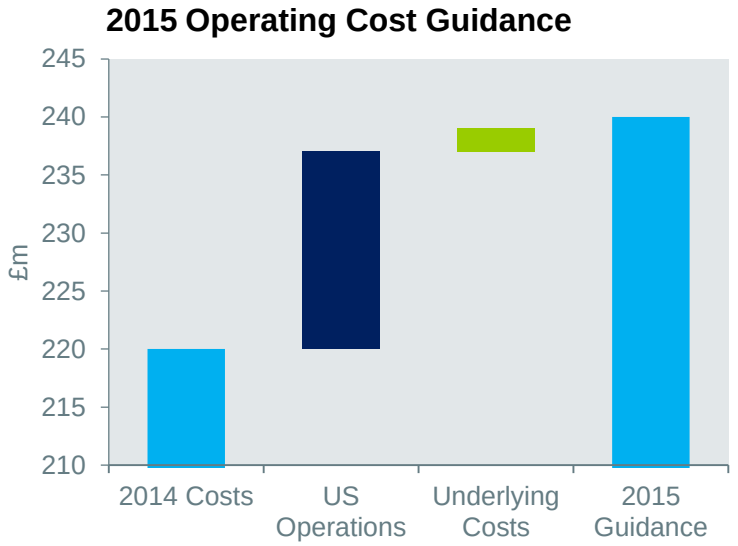
Operating costs – £220m in 2014

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

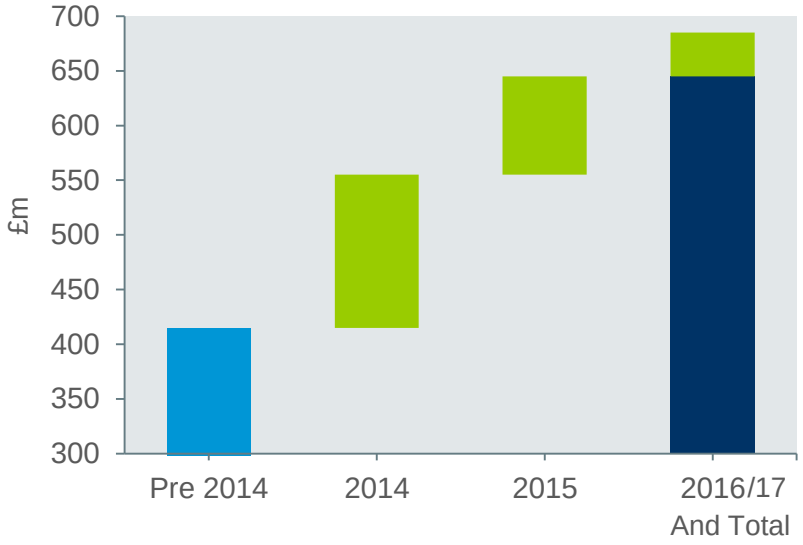
2014 total capex £201m

2015 total capex guidance c.£150m

Evaluating further investments in:

- Potential 3rd US Gulf pellet plant
- US East coast pellet operations
- Carbon Capture and Storage

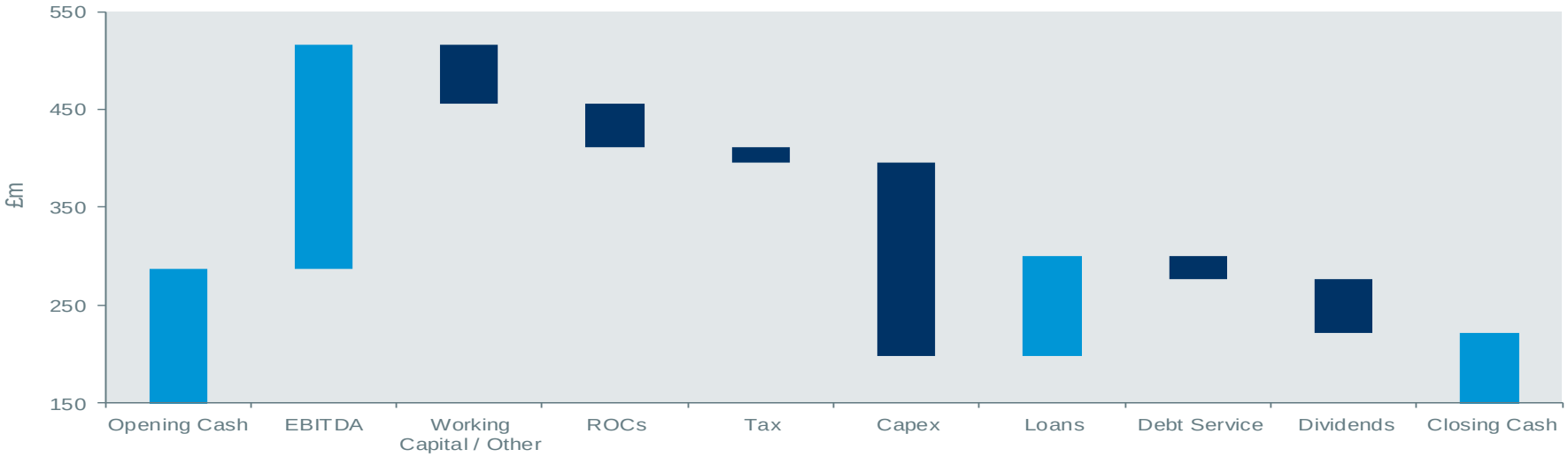
Total Transformation Capex



(1) **IED = Industrial Emissions Directive**

Group Cash Flow

2014 Cash Flow



Working Capital / Other	ROCs / LECs	Tax	Capex	Dividends	Closing Cash
(£58m)	(£45m)	(£14m)	(£200m)	(£55m)	£221m
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

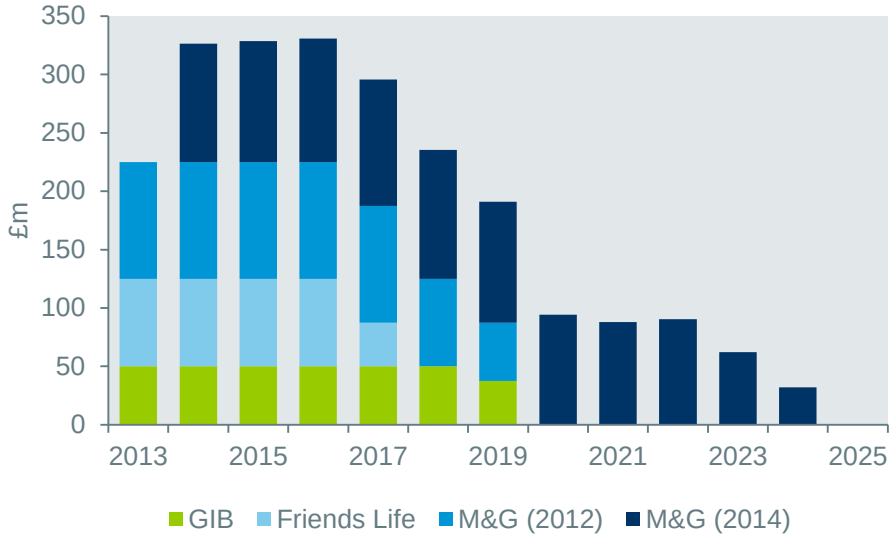
- Evaluating options to optimise financing

Cash flow management

Additional ROC monetisation agreements

- Total agreements of £200m now in place

Term Loan Maturity Profile



Distributions

Regulatory clarity remains 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

2015 Guidance

Guidance Summary	
2015 Financial Guidance	• Depreciation: c.£100m-£105m • Net interest: similar to 2014 • Effective tax rate: close to corporation tax rate • Group Opex: c.£240m • Group Capex: c.£150m
2015 Dividend	• 50% of underlying profit after tax
Increased Biomass Self-supply	• March 2015: Amite COD(1) • June 2015: Morehouse COD
Increased Biomass Generation	• Q3 2015: 3rd unit high biomass burn

Dome Storage at Drax Power Station

(1) **COD = Commercial Operations Date**

Financial Review Summary

2014 performance

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

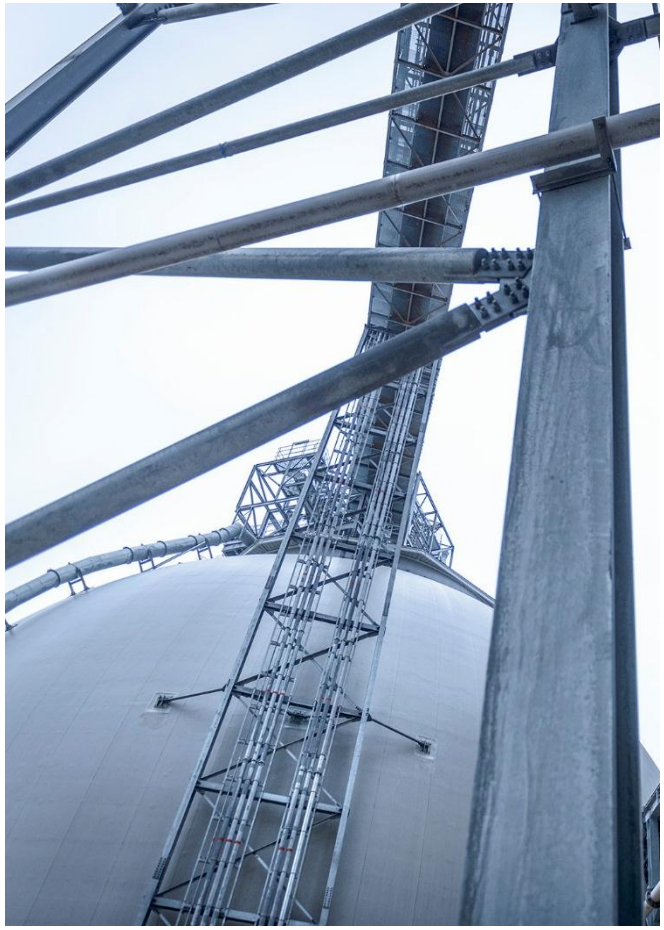
2015 outlook

- Current earnings outlook reflects weak commodity markets

Biomass transformation

- Investment on schedule and within budget
- Creating stronger, more resilient business

Biomass Infrastructure at Drax



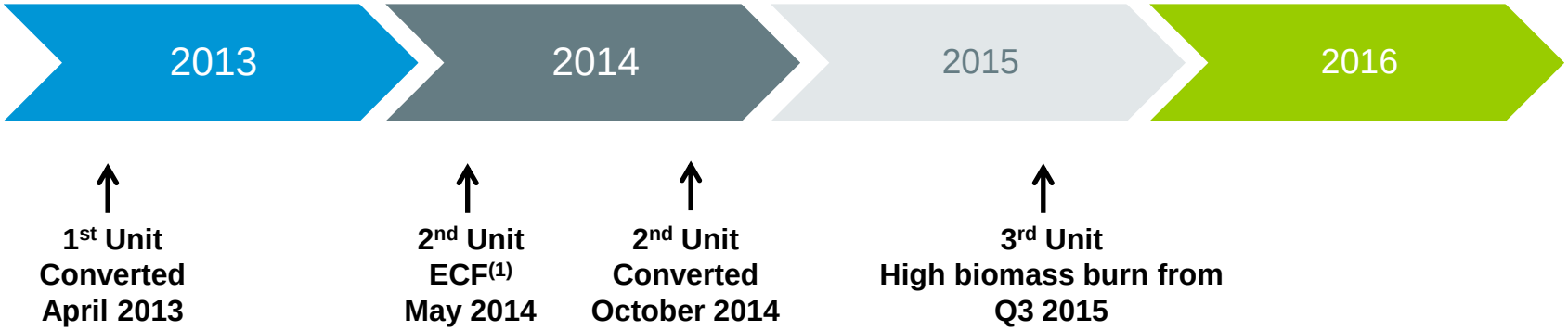
Transformation Milestones Update

Dorothy Thompson – Chief Executive

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

(1) Second biomass unit operated as enhanced co-firing unit from May 2014
(2) ROC year = April to March
(3) COD = Commercial Operations Date
(4) 200 rail wagons operational by Q1 2015

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 CO_2 is equivalent to removing 3.3m cars from the roads or 1,750 new onshore wind turbines(1)
- Subsidy cost £50-60/t CO_2 from conversion compared to £200/t offshore wind(2)

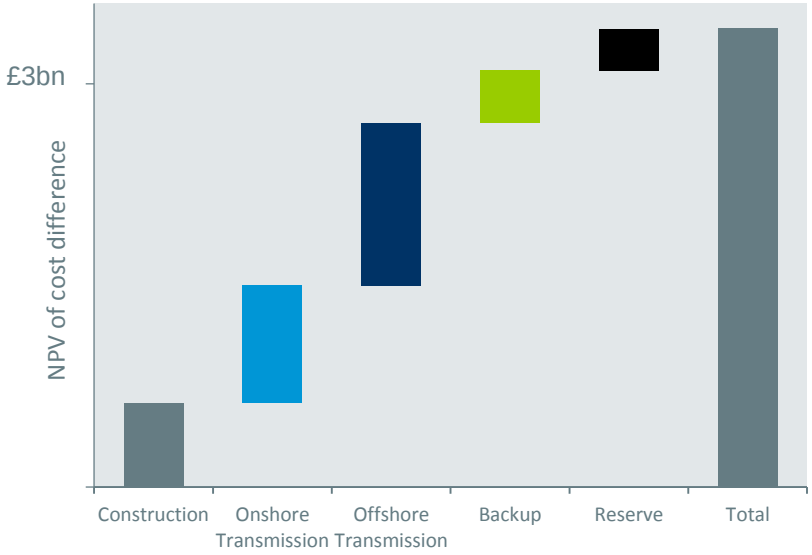
Dependable electricity

- 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

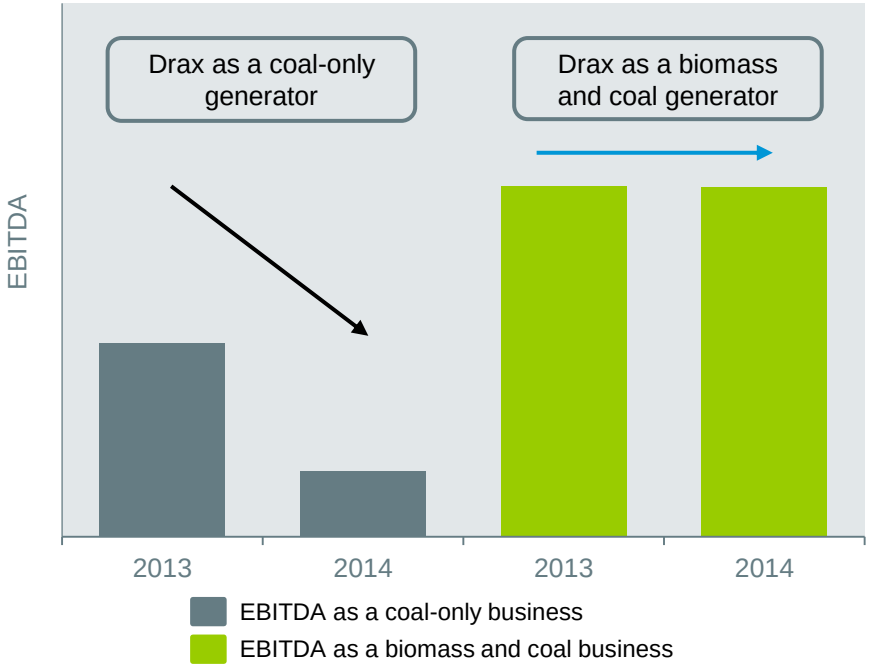
Major carbon savings

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



Conclusion

2014 was a very challenging year

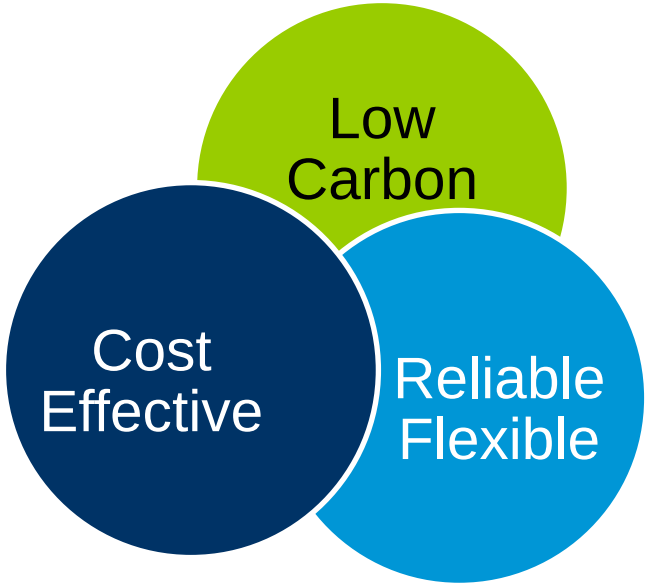
- Significant regulatory headwinds
- Major deterioration in commodity markets

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

Dust Extraction System

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 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

Tax Reconciliation

In £m (unless otherwise stated)	Reported		Underlying	
	2014	2013	2014	2013
Profit Before Tax	**166**	**32**	**120**	**142**
Tax at UK CT Rate	35	7	26	33
Adjustment to Prior Year Taxes and Other Items	2	(27)	(2)	(33)
Tax Charge / (Credit)	**37**	**(20)**	**24**	**-**
Effective Tax Rate	**22%**	**n/a**	**20%**	**0%**

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

2014 Balance Sheet – ROC and LEC Assets

ROC and LEC Assets	£m
At 31 December 2013	**140**
ROCs/LECs Generated	354
Purchased	5
Sold or Utilised	(314)
At 31 December 2014	**185**

Appendix 4: Financial Calendar

Event	Date
Interim Management Statement	Mid May
Financial Half Year End	30 June 2015
Announcement of Half Year Results	28 July 2015

Appendix 5: IAS 39 Treatment

Financial Instrument	Location of Gains and Losses in the Annual Report
Power	Hedge Reserve
International Coal	Hedge Reserve and Income Statement
Financial Coal	Largely Income Statement
Foreign Exchange	Hedge Reserve and Income Statement
Carbon	Hedge Reserve

Appendix 6: Power Market

UK power market

Power prices weaker in 2014 – driven by gas market

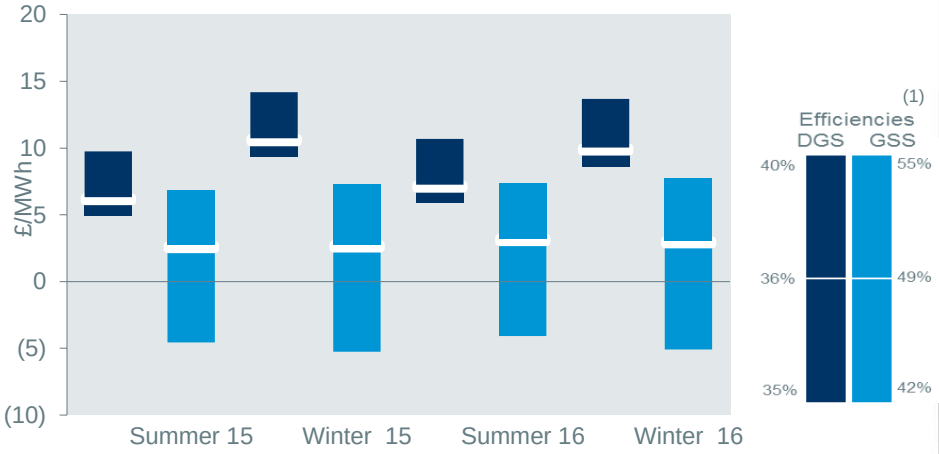
Dispatch dynamics

Plant efficiencies significant factor in load profile

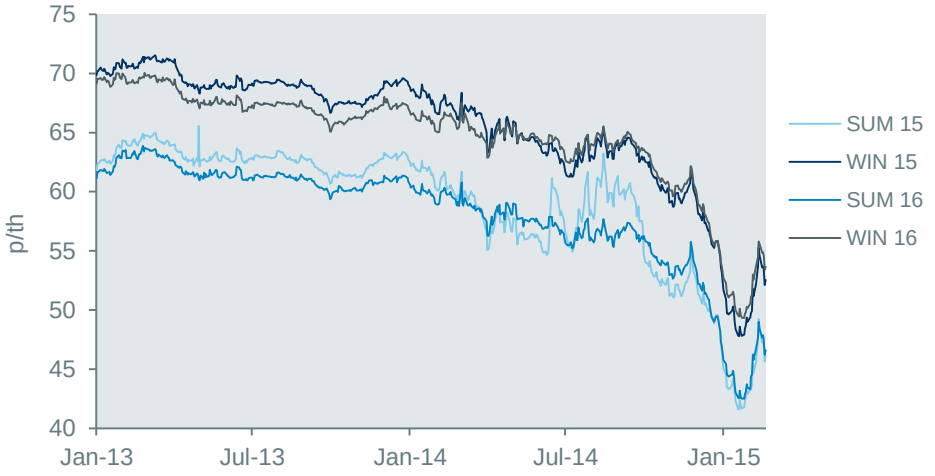
- Different load factors for same fuel plant
- Low GSS resulted in gas plant capacity withdrawn / considered for closure
- All opted-out coal plant now closed
  - Ironbridge converted to biomass until Dec-15
- Oil-fired plant closing prior to full utilisation of running hours
  - Littlebrook announced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

Wind capacity / output continues to grow

Range of Fossil Fuel Spreads by Efficiency (Baseload)



UK Gas (at National Balancing Point)



(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

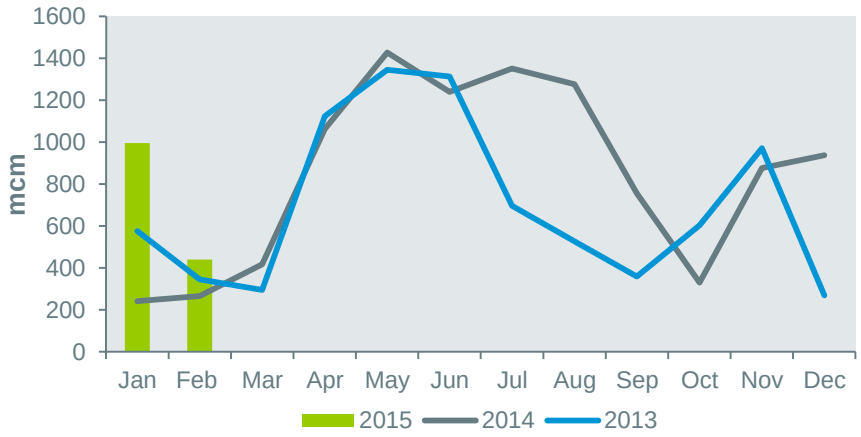
LNG prices under pressure

- Spread between Asia and Europe narrowing
- Europe has become more competitive, resulting in 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

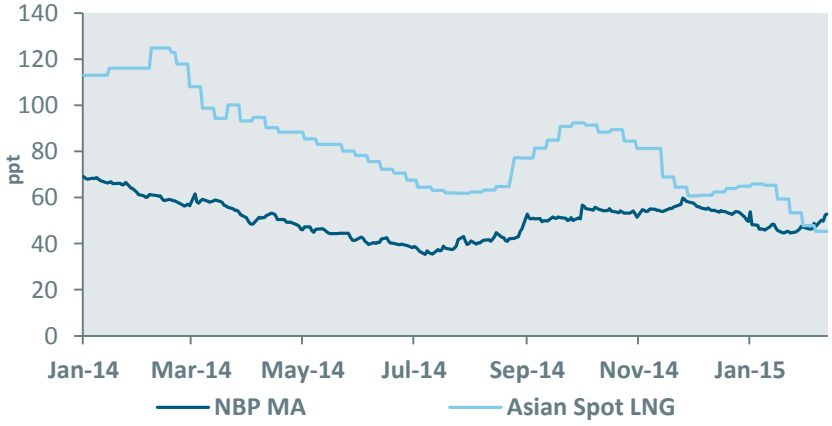
- Healthy supplies coupled with a mild winter and falling oil has resulted in a fall in UK gas prices

UK LNG Deliveries Year on Year



Data Source: National Grid

Asian Spot LNG vs. UK Gas (Month Ahead)



Data Source: Thomson Reuters Eikon

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

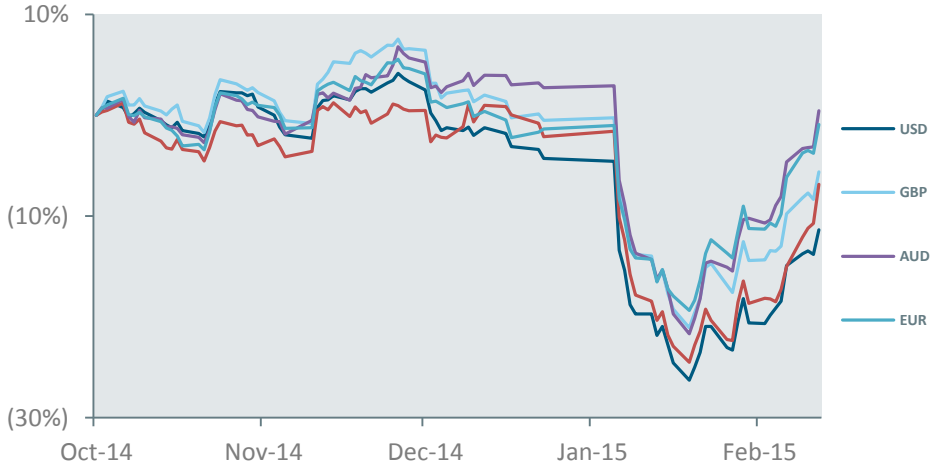
China imports continue to slow – India now the growth focus

- 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

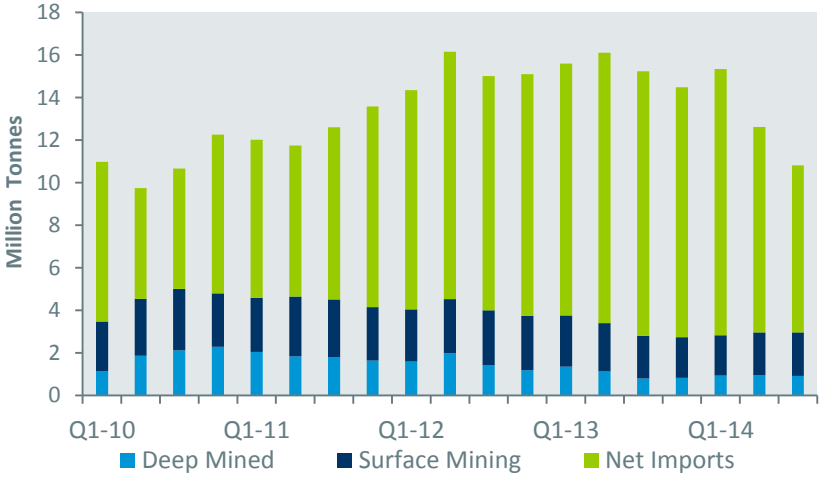
UK domestic coal production under pressure from low international prices

- Indigenous production fell 14% in 2014 (Q3 to Q3)
- Last deep mine expected to close in 2016

Change in API2 price in home currencies:



UK Indigenous Coal Production vs. Net Imports



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

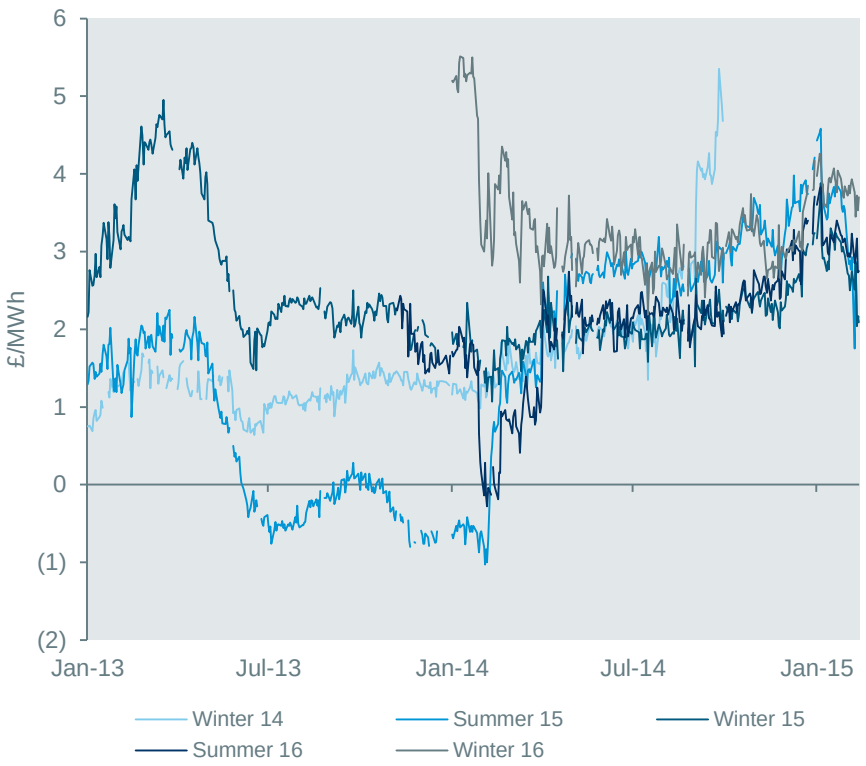
Source: ICE ECX

Prices as of 20th February 2015

Appendix 10: Forward Spread Movements

Dark Green Spread

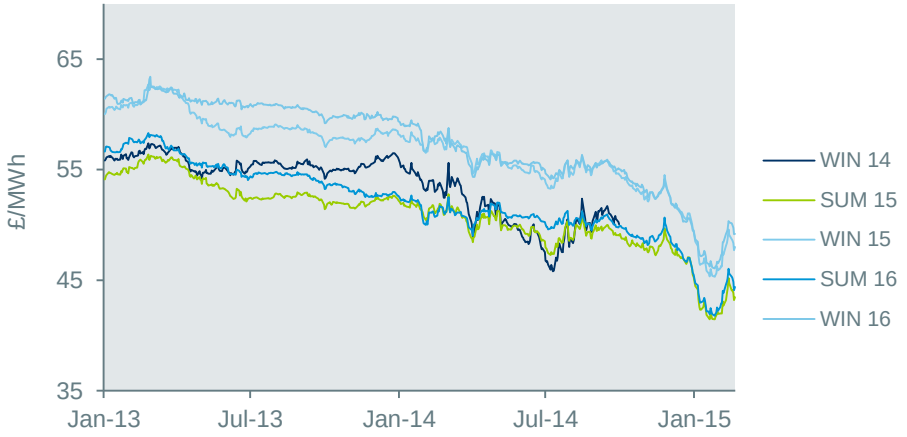
Clean Spark Spread



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

Appendix 11: Commodity Price Movements

Power Prices

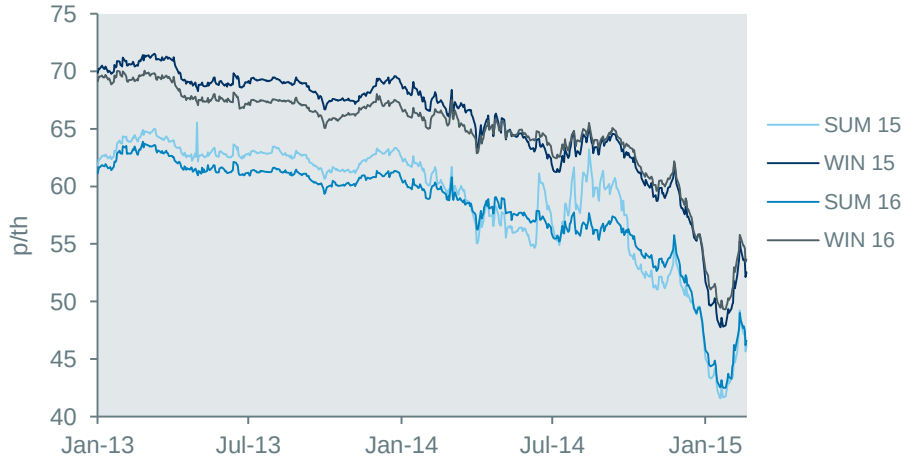


Sources: Brokered Trades, Spectron

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 – Jan 2015)	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	26%	
Rugeley	International Power	Coal	996	996	0		
Ferrybridge	Scottish & Southern Energy	Coal	1960	980	980	U1&2 closed	✓
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	Closed	
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 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

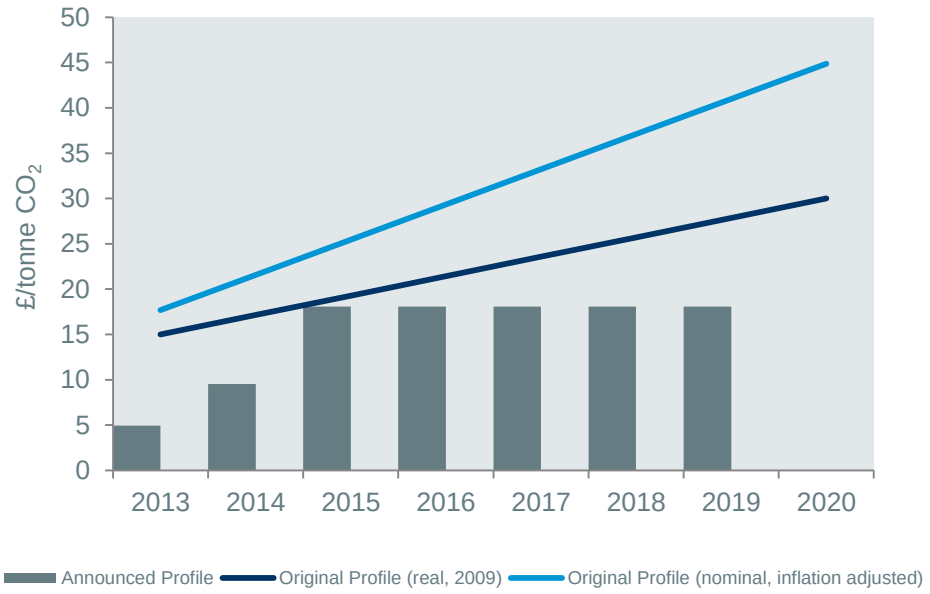
Tax per tonne CO_2 set annually – 2 years in advance

- 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



Preliminary Results

12 Months Ended 31 December 2014

24 February 2015