5 November 2014

DRAX GROUP PLC
(Symbol: DRX)

Interim Management Statement

Drax today publishes its interim management statement for the period from 1 July 2014 to date.

Trading and Operational Performance

Since publishing our half year results on 29 July, trading conditions in the markets in which we operate have remained challenging. However, we continue to benefit from a strong contracted position. In addition, we have delivered good operational performance in the year to date from both our coal and biomass generating units.

These factors underpin our expectations for the full year, which remain unchanged.

Power Sales Contracted for 2014 and 2015

We have extended our contracted position, including additional power sales of more than 3TWh for 2015 compared to the position reported in July.

As at 27 October 2014, the power sales contracted for 2014 and 2015 were as follows:

	2014	2015
Power sales (TWh) comprising:	25.9	15.6
– Fixed price power sales (TWh)	25.2	13.2
at an average achieved price (per MWh) [1]	at £51.7	at £52.7
– Fixed margin and structured power sales (TWh) [2]	0.7	2.4

Biomass Transformation

We have continued to make good progress with the Group's on-going transformation to a predominantly biomass-fuelled electricity generator.

First and Second Unit Conversions
Our first unit was converted fully to biomass in May 2013 and receives support at 1.0 ROC/MWh.

Earlier this year, at the beginning of May, our second unit began to operate as an enhanced co-firing unit, burning at least 85% biomass and earning 0.9 ROCs/MWh. The unit was subsequently converted fully to biomass in October, earning 1.0 ROC/MWh.

Third Unit Conversion
Our third unit conversion was awarded an Investment Contract[3] in May 2014. Subject to receiving State Aid clearance from the European Commission, we plan to convert the unit between July 2015 and June 2016.

Capital Investment
Overall, capital investment remains on schedule and budget. Commissioning of the new on-site biomass facilities at Drax is complete and all four storage domes are now in service.

In the US Gulf, we continue to expect commercial operations at our first pellet plant and port facility to begin in the first quarter of 2015, with commercial operations at the second pellet plant following in the second quarter.

We also continue to evaluate options for further value enhancing, biomass related capital investment. These include a fourth unit conversion, a third US Gulf pellet plant and the development of US East coast pellet operations.

Other Matters

Since 2013, the Office for Gas and Electricity Markets (Ofgem) has been investigating our non-compliance with the Community Energy Saving Programme (CESP)(4). Ofgem is now concluding its investigation. Enforcement could be in the form of a financial penalty. We will provide an update when we have clarity on the final resolution.

Other than as described above, there have been no material events or transactions, nor any material change in the underlying financial position of the Group during the period.

We will announce our full year results for the twelve months ending 31 December 2014 on 24 February 2015.

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Notes:

(1) Fixed price power sales include approximately 1.9TWh supplied to Centrica in the period 1 January 2014 to 27 October 2014 under the five year 300MW baseload contract which commenced on 1 October 2010.

(2) Fixed margin and structured power sales (and equivalents) include approximately 0.7TWh in 2014 and 1.9TWh in 2015 in connection with the above contract. Under this contract the Group will supply power on terms which include Centrica paying for coal, based on international coal prices, and delivering matching CO_2 emissions allowances amounting in aggregate to approximately 2.4 million tonnes in 2014 and 1.8 million tonnes in 2015. The contract provides the Group with a series of fixed dark green spreads agreed in October 2009.

(3) The Government is introducing Contracts for Difference (CfDs), which are long-term contracts, to support the development of low carbon electricity generation. To avoid an investment hiatus in the renewables sector before the ‘enduring’ CfDs become available, the Government introduced a scheme for Investment Contracts under the Final Investment Decision Enabling (“FID Enabling”) mechanism. These are ‘early’ CfDs intended to provide greater confidence for investors in advance of the enduring CfD.

In December 2013, the Government advised that two generating units at Drax Power Station – the “second” and “third” unit conversions – were eligible for Investment Contracts. Both units were also provisionally ranked equal first of all the qualifying projects and deemed affordable.

Drax was notified in April 2014 that the Government believed the second unit conversion was no longer eligible for an Investment Contract. However, Drax did not receive a satisfactory explanation for this decision by the Government and legal advice confirmed the company had a good foundation to challenge it. High Court proceedings were therefore initiated.

In July, following a High Court hearing, the Court declared that our second unit conversion was eligible for an Investment Contract. However, the Government appealed against this judgment to the Court of Appeal.

In August, Drax confirmed that the Court of Appeal had allowed the Government’s appeal and concluded that the second unit conversion was not eligible for an Investment Contract. Having taken legal advice, Drax decided not to appeal against this decision.

In May 2014, the Government offered Drax an Investment Contract for the third unit conversion. This contract was subsequently awarded and it remains subject to EU State Aid clearance.
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(4) As noted in our 2013 Annual Report and Accounts, under the CESP Drax, in common with other major generators and suppliers, was required to deliver energy saving measures to domestic consumers in specific low income areas over the period October 2009 to December 2012 (representing around 900,000 tonnes of lifetime CO_2 savings).

Drax entered into an agreement with a third party, pursuant to which the third party was obliged to deliver its CESP obligation, for a total cost of £17 million. The third party failed to comply fully with its obligation under the agreement, leaving a significant shortfall against Drax's CESP obligation. Drax is considering legal proceedings for breach of contract against the third party. Drax entered into further agreements with additional third parties in order to rectify this shortfall so far as practicable, but was not able to fully comply by the end of the period.

Ofgem calculated that Drax was 37% compliant at the end of the obligation period. Ofgem is now concluding its investigation and Drax has been co-operating fully with that investigation.

Enquiries:

Drax Investor Relations: Michael Scott / Mark Strafford
+44 (0) 1757 612 230 / +44 (0) 1757 612 491

Media:

Drax External Communications: Melanie Wedgbury
+44 (0) 1757 612 438

Brunswick: Richard Jacques / Nina Coad
+44 (0) 207 404 5959

Website: www.drax.com

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