

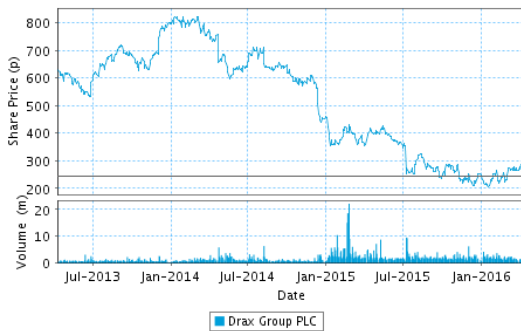
Warning to Investors 2016:

Drax's Continuing Biomass Deception

Drax has invested hundreds of millions in converting half its generating capacity to Biomass. It is risking your money and your planet.

We have bad news for you. It is not a green option and there are many risks to your investment.

Share price graph



IF YOU HAD LISTENED TO US IN 2014 AND DIVESTED YOU WOULD HAVE MADE TWICE WHAT YOU WILL IF YOU SELL NOW... DIVEST NOW BEFORE THIS DINOSAUR DIES ON TOP OF YOU.

RISK TO YOUR INVESTMENT:

In 2 years: Shares down 58%. Profits down 64%. Dividends down 66%.

SHARE PRICES DROPPING OVER SUBSIDY UNCERTAINTIES

Drax's share price is highly sensitive to government subsidies.

Conversion to Biomass is only financially viable with large government subsidies – which is why Drax lobbied hard for them.

In 2014 we warned that those subsidies were not reliable, and that they depended on secondary legislation which can be changed at any time. Since then to government has removed grandfathering on biomass and deleted Levy Exemption Certificates which will impact Drax's profits to the tune of £60m this year. In 2014 made up 79% of Drax's profits. In 2015 subsidies made up 115% of profits – in other words without subsidy Drax have been trading at a loss last year.

Subsidy for onshore wind and solar have been slashed by this government. Both are cheaper than biomass and produce genuine carbon savings from using a primary energy source that is free at source and not affected by market vicissitudes. This shows that government can renege on previous promises and remove subsidies at will by issuing a new statutory instrument which would be with minimum notice at any time. The Government has made it clear that they seek to reduce overall subsidies for energy

classified as renewable, and this definition includes biomass.

The European Commission is conducting a State Aid investigation into the Contract of Difference DECC approved for one of Drax's unit conversions to biomass. If Commission disallows or reduces this State Aid award, which we believe it has good grounds to do, this will significantly impact Drax's profits.

GOVERNMENT IS WORRIED ABOUT BIOMASS.

There is mounting evidence from scientists, NGOs and journalists which shows that Drax is buying pellets sourced from clearcut biodiverse and carbon-rich wetland forests in the southern US. A growing number of scientific studies show that the climate impact of burning such wood pellets can be worse than that of burning coal when looked at over a period of several decades.

In July 2014 Prof. David Mackay, DECC's then scientific advisor, co-authored a report published by DECC which showed that several 'realistic' fuelling scenarios are up to *3 times worse than coal* for between 40 and 100 years... at a time when we urgently need to be reducing emissions. Since then studies by US NGOs have confirmed that the High Carbon Scenarios are exactly the ones that are operated by companies like Enviva to supply Drax.

If you want to know more visit www.biofuelwatch.org.uk or contact biofuelwatch@gmail.com

Warning to Investors 2016:

DECC is sufficiently worried by this to have commissioned a follow-on report (albeit from an industry consultant) into the High Carbon Scenarios from the report co-authored by Professor MacKay.

UK carbon accounting only requires Drax to declare carbon emissions from producing, processing and transporting the biomass, not from actually burning the trees which Drax admits is more per unit of energy produced than coal. It is only this flawed system that allows Drax to claim an *86% improvement* over coal. The government will have to align its practice with its policy to take account of 'carbon impacts of the whole system'. **Drax will then not meet emissions thresholds that entitle it to government subsidy.**

DRAX EXPLOITS LOOPHOLES

Drax makes use of loose definitions to insist that it only uses 'forest residues' which are accounted as waste and therefore zero-carbon. These 'residues' amounts to 70% or more of the wood from clear-fells. US loggers say that the new demand for biomass means that they routinely clear-fell when before they took the high value trees. Hundred year old trees as well as the next generation of timber trees are ground up and then compressed into wood pellets which become atmospheric CO2 within weeks adding to climate change. **Statutory obligations to preserve eco-systems and biodiversity and future productivity are ignored.**

'SUSTAINABILITY STANDARDS'

On 1 December 2015 the UK Biomass Sustainability and Greenhouse Gas Standards became mandatory and subsidy is

conditional on them being met. Drax is claiming that they meet those standards, but evidence to show otherwise is mounting and may soon become impossible for DECC and Ofgem to ignore.

The US Securities and Exchange Commission recently received a complaint from 34 investment groups, controlling \$53bn of assets, against Enviva, Drax's biggest supplier of wood pellets. Enviva was accused of misrepresenting to investors the climate-benefits of wood pellets by using the same flawed carbon accounting process that the UK government and Drax do.

Enviva routinely sources from clearcut, highly biodiverse, hardwood, native forests. Enviva is Drax's main pellets supplier. If the complaint against them is upheld by the US authorities, this could have serious consequences for Drax's business, too.

SUPPLY PROBLEMS, MARKET VOLATILITY

There are serious supply issues. Drax is 98% dependent on imported biomass. In 2015 it burnt pellets made from over 12 million tonnes of wood, more than the entire wood harvest of the UK! The UK biomass demand took more than half of globally traded pellets in 2015.

The global supply chain is immature and pricing is going to be volatile – with wood, including wood pellet prices expected to increase sharply as a result of the combined new European and North American demand for wood-based bioenergy. Banking on future pricing is risky. The market is expanding hugely and supply will not keep pace with demand.

Drax is speculating on **an economic bubble waiting to burst.**

DIS-INVEST and RE-INVEST IN THE FUTURE

We say Drax's investment in conversion to Biomass is dangerous folly – from a business and a planetary point of view. We therefore ask you to DISINVEST from Drax. We ask you not to invest in the expansion of bio-energy which has catastrophic implications for the future of our planet. Get something for nothing. Solar, wind and water energy are free at source and from international market vagaries, genuinely low-carbon and increasingly cheap to install. Investing in energy efficiency and a smart grid yields long term benefits. **Invest in the future of energy!**

Thank you.

If you want to know more visit www.biofuelwatch.org.uk or contact biofuelwatch@gmail.com