2019
HALF YEAR RESULTS

6 Months Ended 30 June 2019
24 July 2019

AGENDA

Introduction & Operational Review

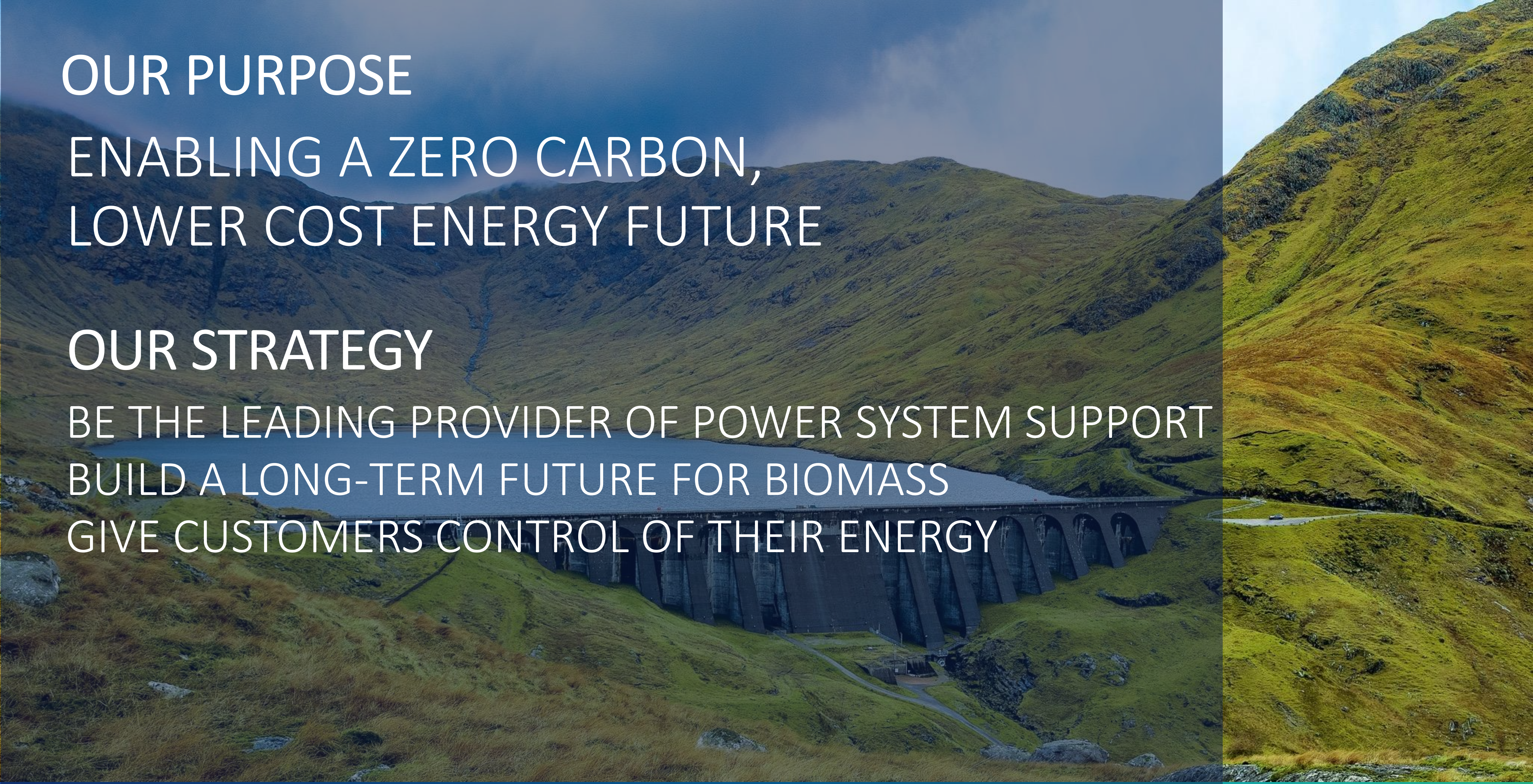
Will Gardiner

Financial Review

Andy Skelton

Strategy Update

Will Gardiner



OUR PURPOSE

ENABLING A ZERO CARBON,
LOWER COST ENERGY FUTURE

OUR STRATEGY

BE THE LEADING PROVIDER OF POWER SYSTEM SUPPORT
BUILD A LONG-TERM FUTURE FOR BIOMASS
GIVE CUSTOMERS CONTROL OF THEIR ENERGY

PERFORMANCE SUMMARY

GOOD PERFORMANCE, SUPPORTING UK ENERGY NEEDS, FULL YEAR FINANCIAL EXPECTATIONS UNCHANGED

Financial performance

Full year expectations unchanged, performance weighted to H2 2019

12.5% increase in expected dividend

Continue to expect to complete refinancing during 2019

Operational performance

Strong performance in system support markets

Integration of hydro and gas generation assets progressing well

Weak financial performance from Customers, strong underlying metrics

Progress with strategy

Strategy aligned with UK net zero 2050 targets

Expansion of low-cost biomass self-supply chain

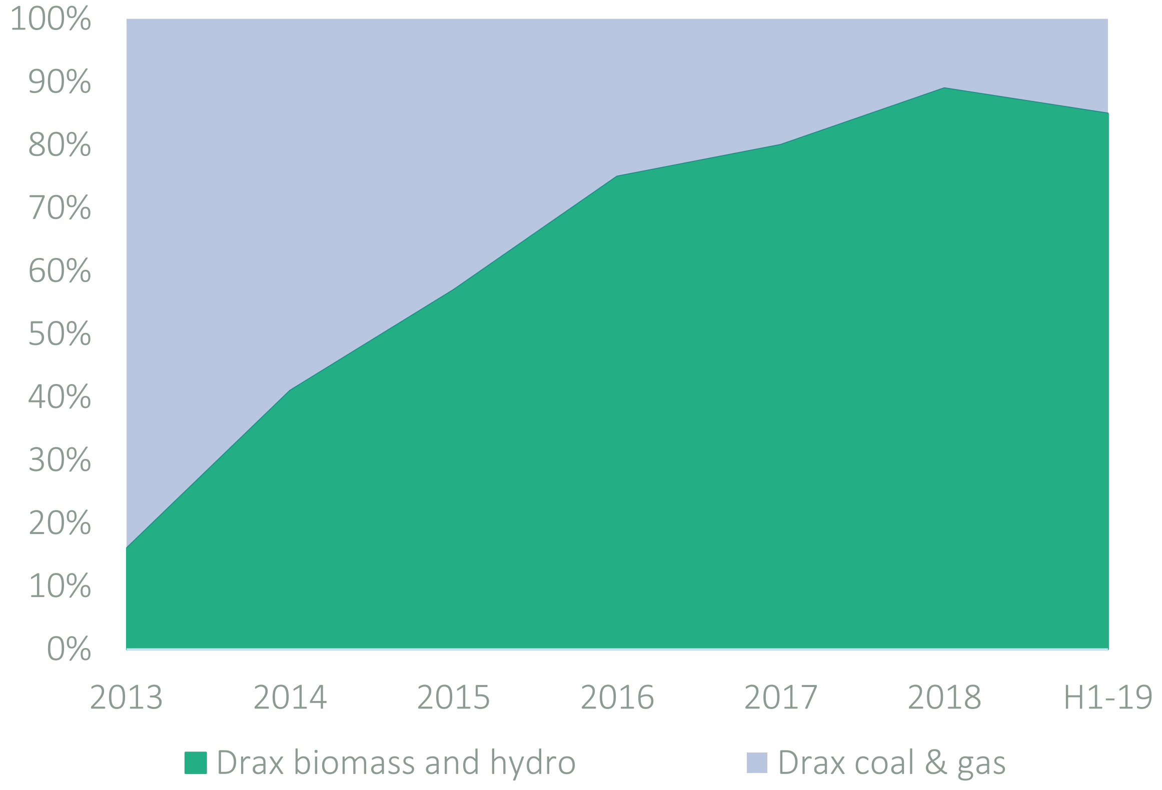
Options for growth aligned with UK energy needs

Capacity Market expectations unchanged

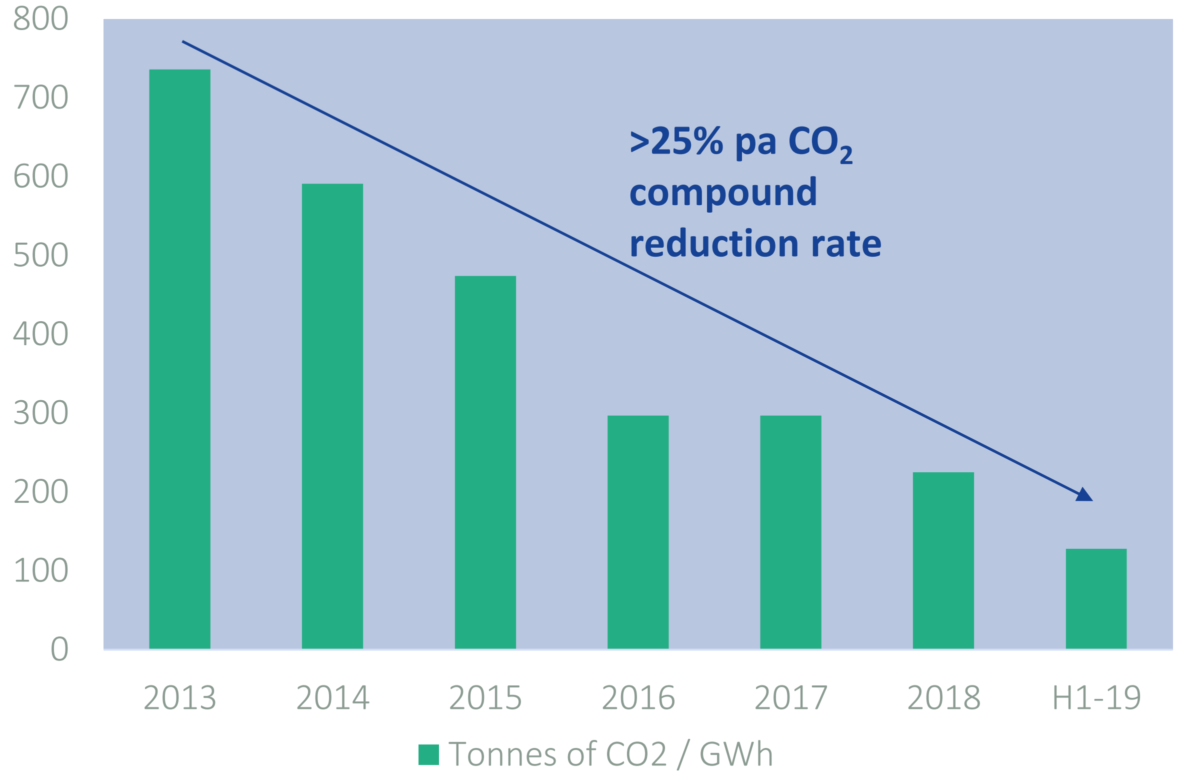
ENABLING A ZERO CARBON ENERGY FUTURE

RENEWABLE AND HYDRO DRIVING CONTINUOUS REDUCTION IN GENERATION CO_2

Growing revenues from biomass and hydro (%)



CO_2 reduction at Drax Generation (tonnes of CO_2/GWh)



Source: Drax Group / EU ETS emissions

SAFETY AND ESG
A SUSTAINABLE LONG-TERM BUSINESS MODEL

Safety
TRIR 0.30 (H1 2018: 0.18)

Environment
Largest single source of renewable MWh in UK

Expanded biomass sustainability policy

Social
Supporting over 17,500 UK jobs across GB

Participant in UN Global Compact

Governance
Development of sustainability KPIs

CAPACITY MARKET UPDATE

European Commission conducting formal investigation

March 2019 – opening decision confirmed limited scope of investigation

April 2019 – one-month consultation process

Remaining steps

Internal review within the European Commission

Drax position

Continue to expect market to be reinstated in 2019

Retrospective payment for capacity – recognised in accounts on receipt

OPERATIONAL REVIEW

GENERATION

FLEXIBLE, LOW-CARBON AND RENEWABLE GENERATION

Biomass

Optimisation of ROC generation – output weighted to H2

Two planned outages complete, third in H2

Hydro

Strong operational performance in system support markets(1)

Coal and gas

Coal – buy back of hedged sales to add margin

Gas – summer system support role

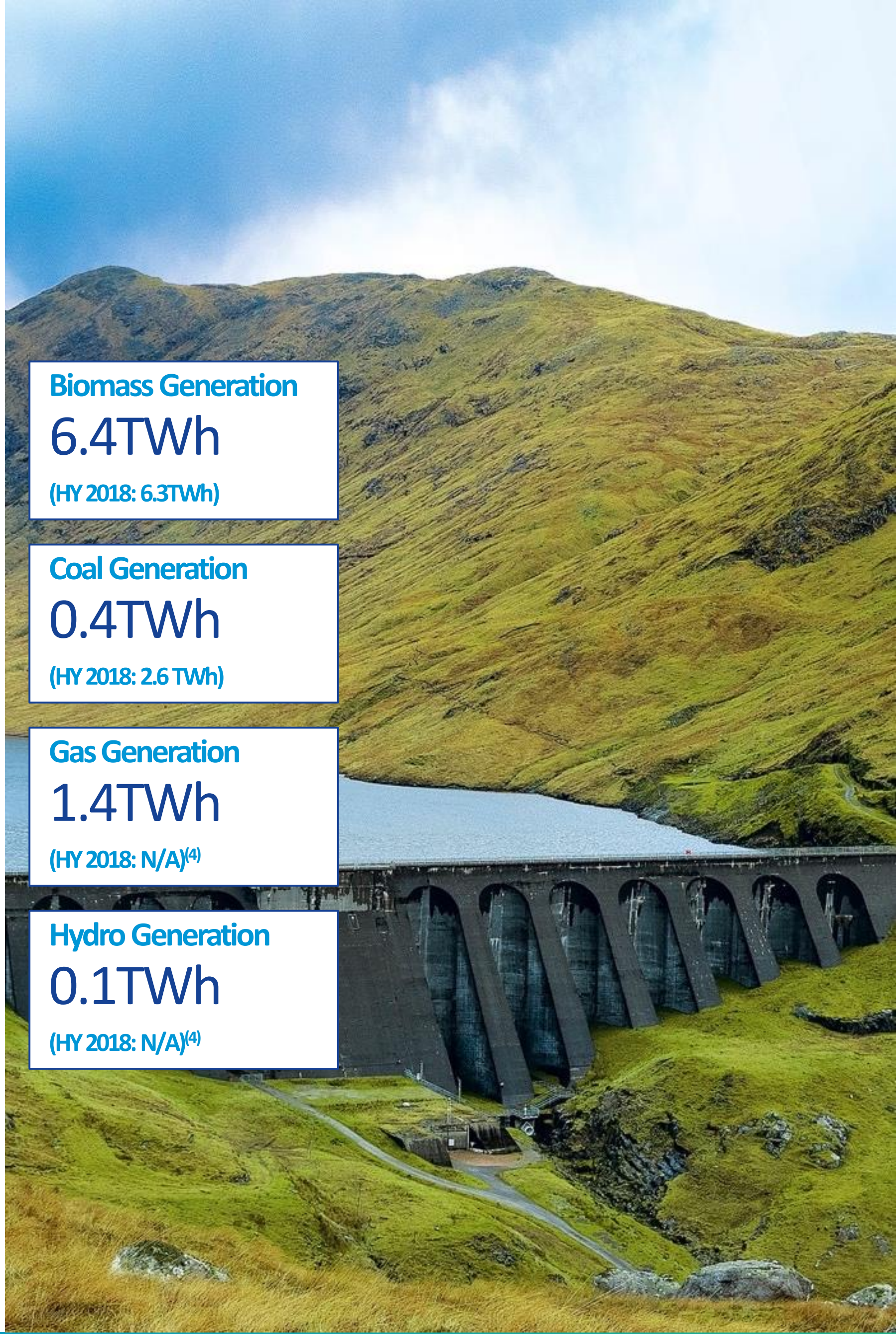
Markets

Strong contracted power position over next two years

Portfolio optimisation opportunities

Strong performance in system support markets(1)

Adjusted EBITDA £148m (HY 2018: £88m)	**Biomass Generation** 6.4TWh (HY 2018: 6.3TWh)
Biomass Availability 77% (HY 2018: 87%)	**Coal Generation** 0.4TWh (HY 2018: 2.6 TWh)
Flexibility(2) £69m (HY 2018: £36m)	**Gas Generation** 1.4TWh (HY 2018: N/A)(4)
% of UK Renewables 11%(3) (Q4 2017 to Q1 2018: 10%)	**Hydro Generation** 0.1TWh (HY 2018: N/A)(4)



1) Balancing Mechanism and Ancillary Services
2) Value from flexibility: Balancing Mechanism, Ancillary Services and lower cost coals
3) Q4 2018 to Q1 2019
4) Previously ScottishPower Generation

HYDRO AND GAS GENERATION

INTEGRATION PROGRESSING WELL, STRONG PERFORMANCE IN SYSTEM SUPPORT MARKETS

Attractive financial attributes unchanged

EBITDA £90-£110m, inclusive of capacity payments

Returns significantly in excess of WACC

High proportion of non-commodity related earnings

Strong performance in system support markets

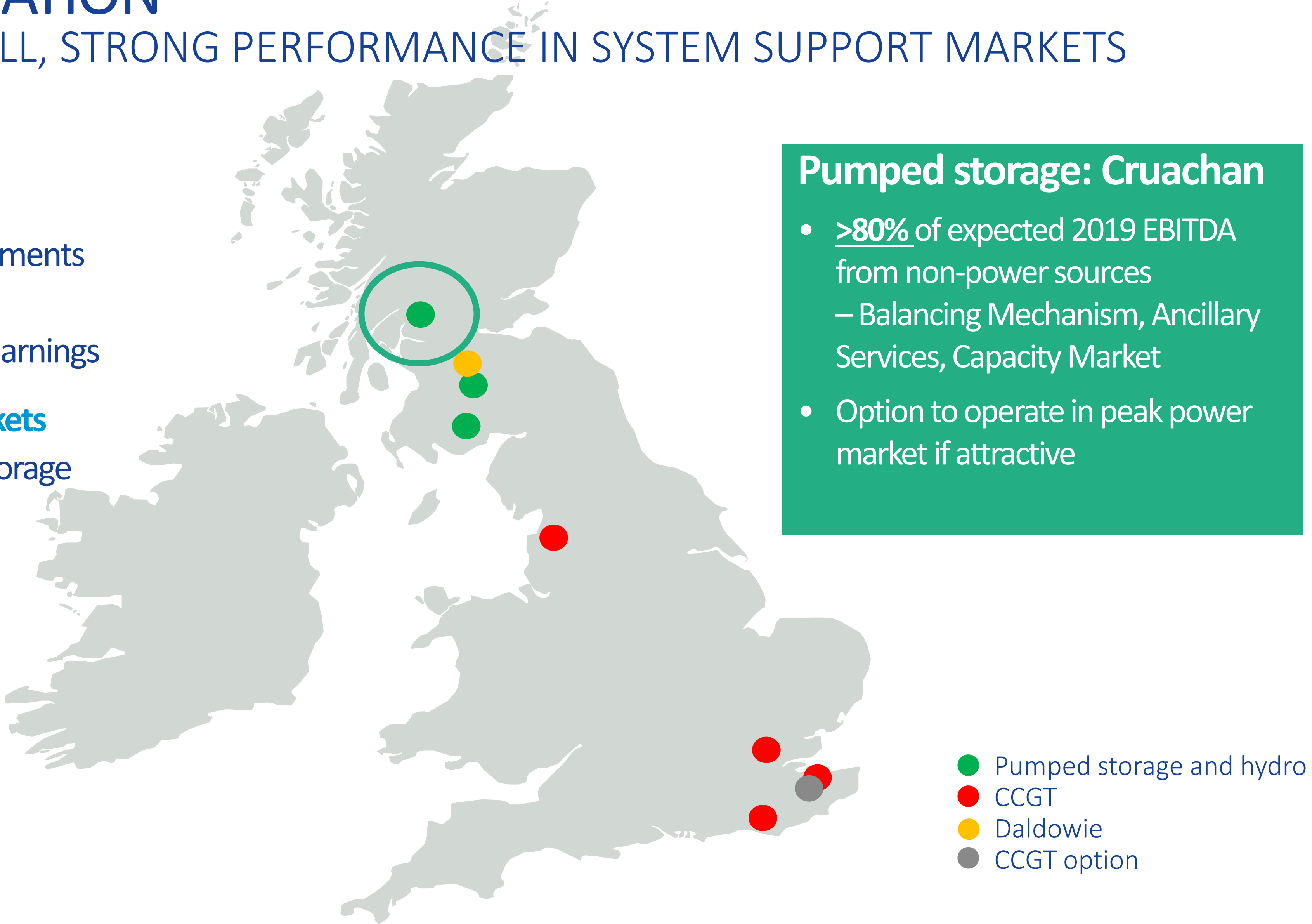
Wide range of services from generation to storage

Development options

1.8GW CCGT (Damhead Creek)

Up to 0.4GW hydro expansion (Cruachan)

Integration progressing well



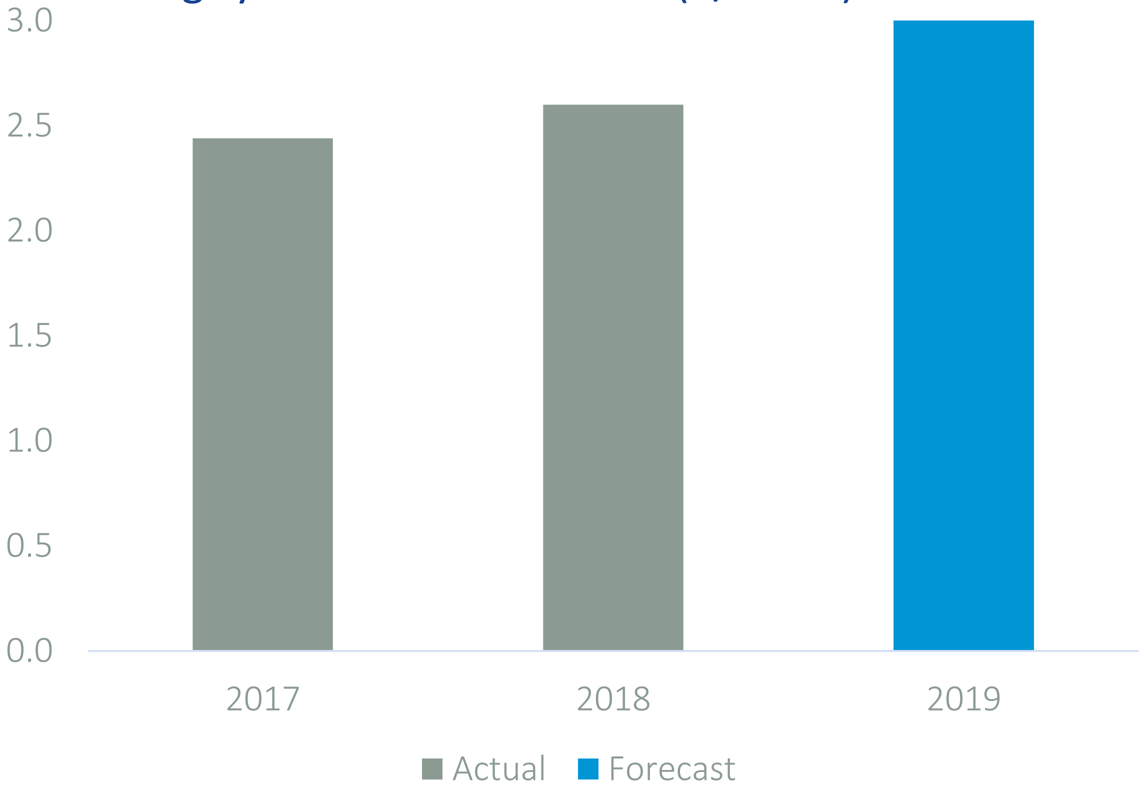
Pumped storage: Cruachan

- >80% of expected 2019 EBITDA from non-power sources
  – Balancing Mechanism, Ancillary Services, Capacity Market
- Option to operate in peak power market if attractive

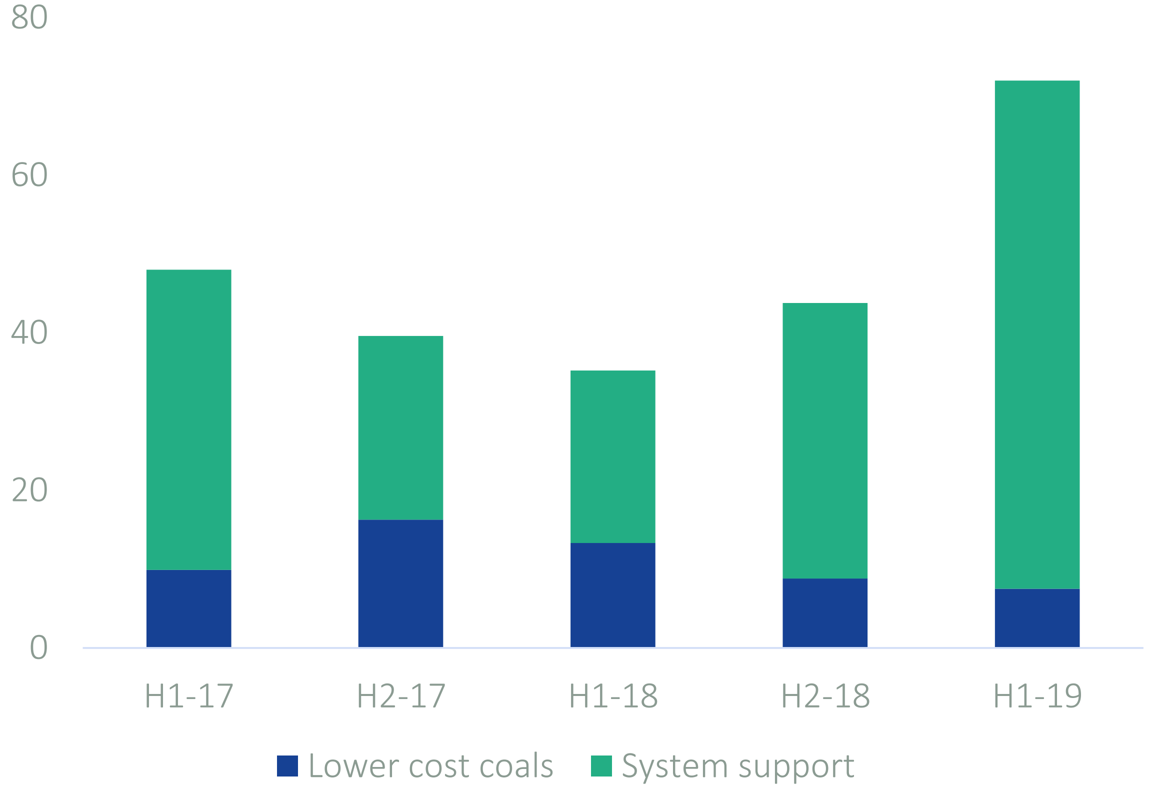
GROWING VALUE FROM SYSTEM SUPPORT

GROWING SYSTEM NEED, STRONG PERFORMANCE FROM NEW ASSETS

Growing system need – BSUoS[1] (£/MWh)



Value from flexibility – Drax (£m)



1) Balancing Services Use of System cost – National Grid

PELLET PRODUCTION
TARGET GOOD QUALITY PELLETS AT LOWEST COST

Operational performance weighted to H2

Weather restricted pellet production in H1

Cost reduction benefits in H2

LaSalle rail spur now operational

LaSalle co-located sawmill now operational

Baton Rouge rail chambering yard commissioning

Expansion of existing sites

0.35Mt low-cost expansion 2019-2021

Lower fibre, operating and transport costs

Evaluating opportunities for further capacity expansion

Adjusted EBITDA
£8m
(HY 2018: £10m)

Pellet Production
0.65Mt
(HY 2018: 0.66Mt)

CUSTOMERS (B2B ENERGY SUPPLY)
GROWTH IN METERS AND MARGIN PER MWH

Financial performance

Lower energy sales

Growth in gross profit per MWh

Growth in customer meters

Improvement in bad debt expense

Increase in operating cost – growth, integration and restructuring

Remain focused on key objectives

Reduce cost to serve and create a scalable platform for growth

Continued reduction in bad debt

Adjusted EBITDA
£9m
(HY 2018: £16m)

Power Sales
8.0TWh
(HY 2018: 9.3 TWh)

Gas Sales
1.7 TWh
(HY 2018: 1.7 TWh)

Meter Points
405,000
(H1 2018: 387,000)

FINANCIAL REVIEW

FINANCIAL HIGHLIGHTS
STRONG FINANCIAL PERFORMANCE

Adjusted EBITDA[1]

£138m

(HY 2018: £102m)

Interim Dividend

6.4p/share

(£25m)

(HY 2018: 5.6p/share, £22m)

Expected Full Year Dividend

15.9p/share

(£63m)

(2018: 14.1p/share, £56m)

Adjusted Basic Earnings Per Share

2.0p/share

(HY 2018: 1.6p/share)

Net Cash From Operating Activities

£197m

(HY 2018: £112m)

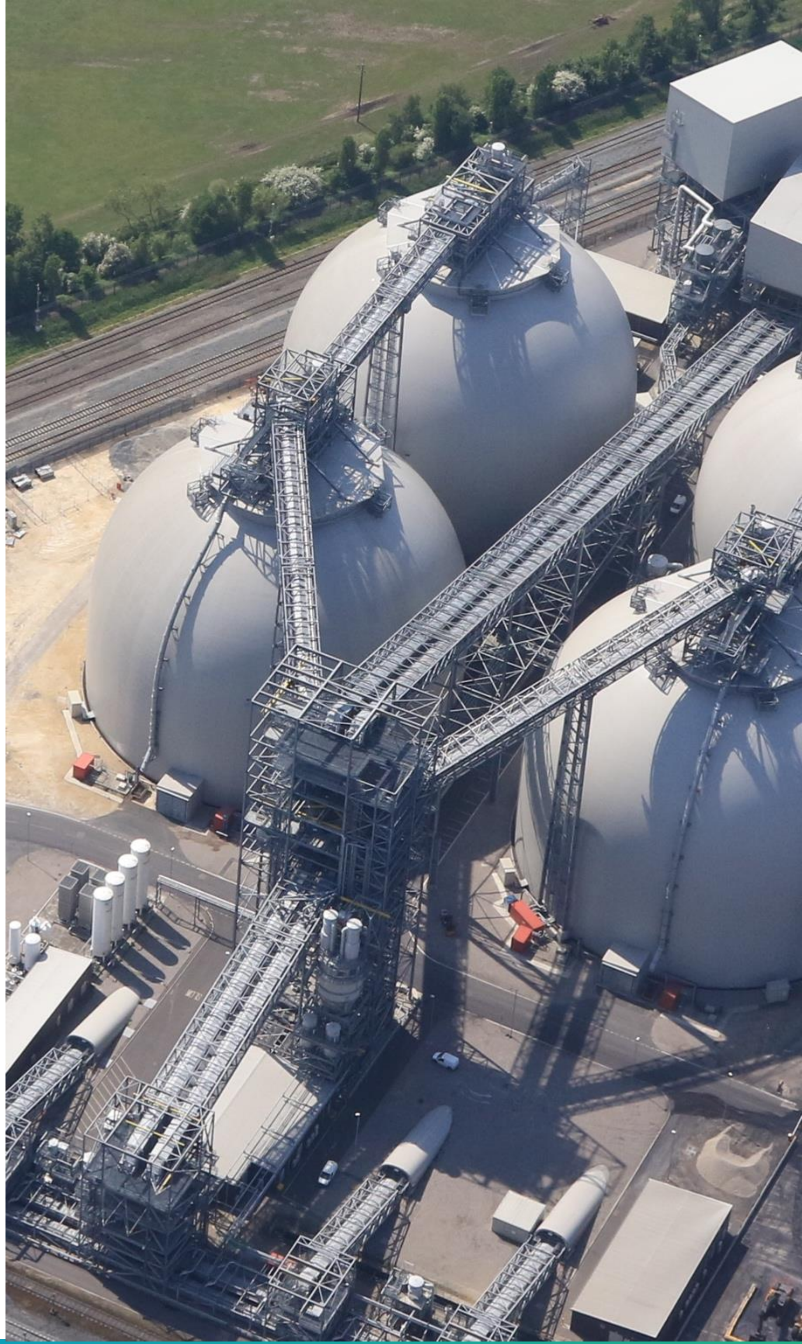
Net Debt June 2019[2]

£924m

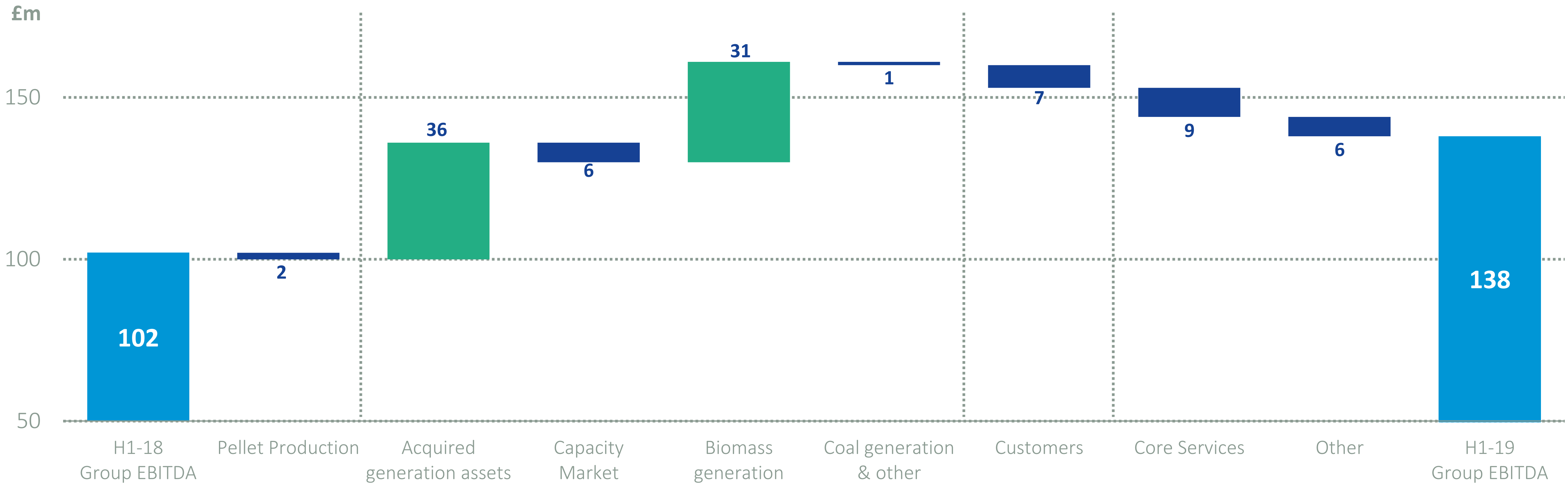
(December 2018: £319m)

1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs) and certain remeasurements

2) Cash and short-term investments of £244m less borrowings of £1,168m



GROUP ADJUSTED EBITDA BRIDGE H1 2018 – H1 2019



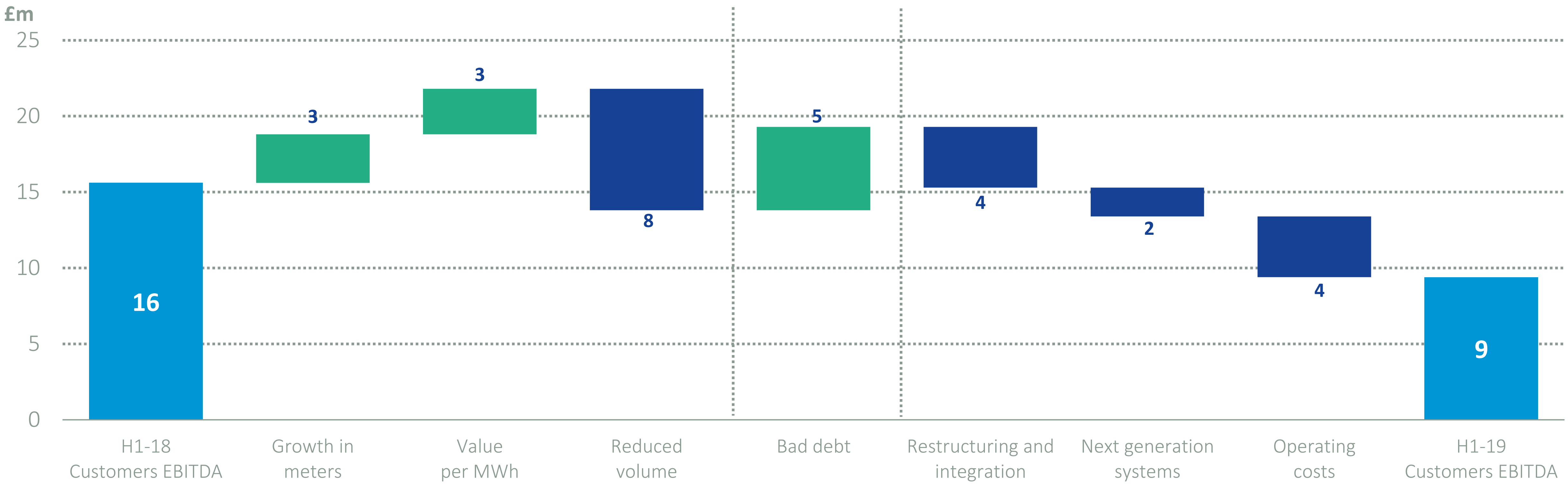
Pellet Production
H1-18: £10m
H1-19: £8m

Generation
H1-18: £88m
H1-19: £148m

Customers
H1-18: £16m
H1-19: £9m

Core Services & Other
H1-18: £(12)m
H1-19: £(27)m

CUSTOMERS ADJUSTED EBITDA BRIDGE – H1 2018 – H1 2019



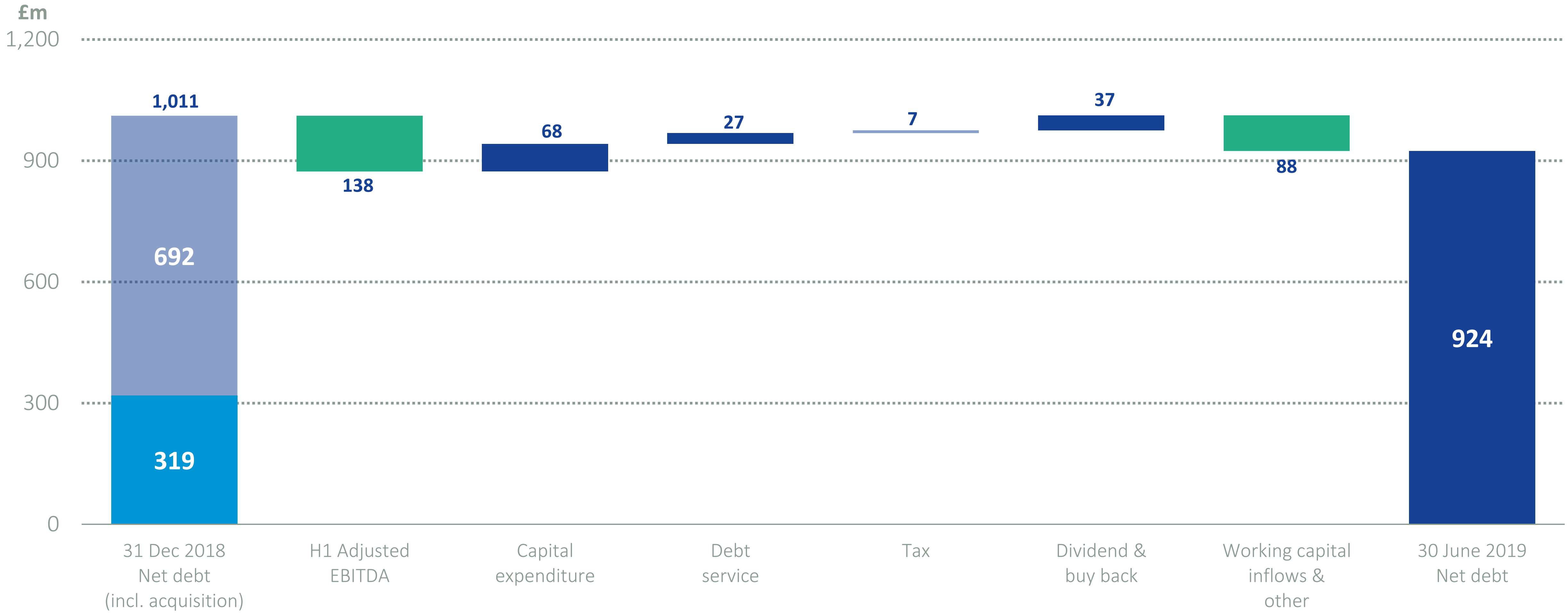
Gross profit
H1-18: £74m
H1-19: £72m

Bad debt
H1-18: £(18)m
H1-19: £(13)m

Operating cost
H1-18: £(40)m
H1-19: £(50)m

NET DEBT

ON TARGET FOR 2X NET DEBT / ADJUSTED EBITDA BY END OF 2019[(1)]



1) Subject to reinstatement of Capacity Market

CAPITAL INVESTMENT

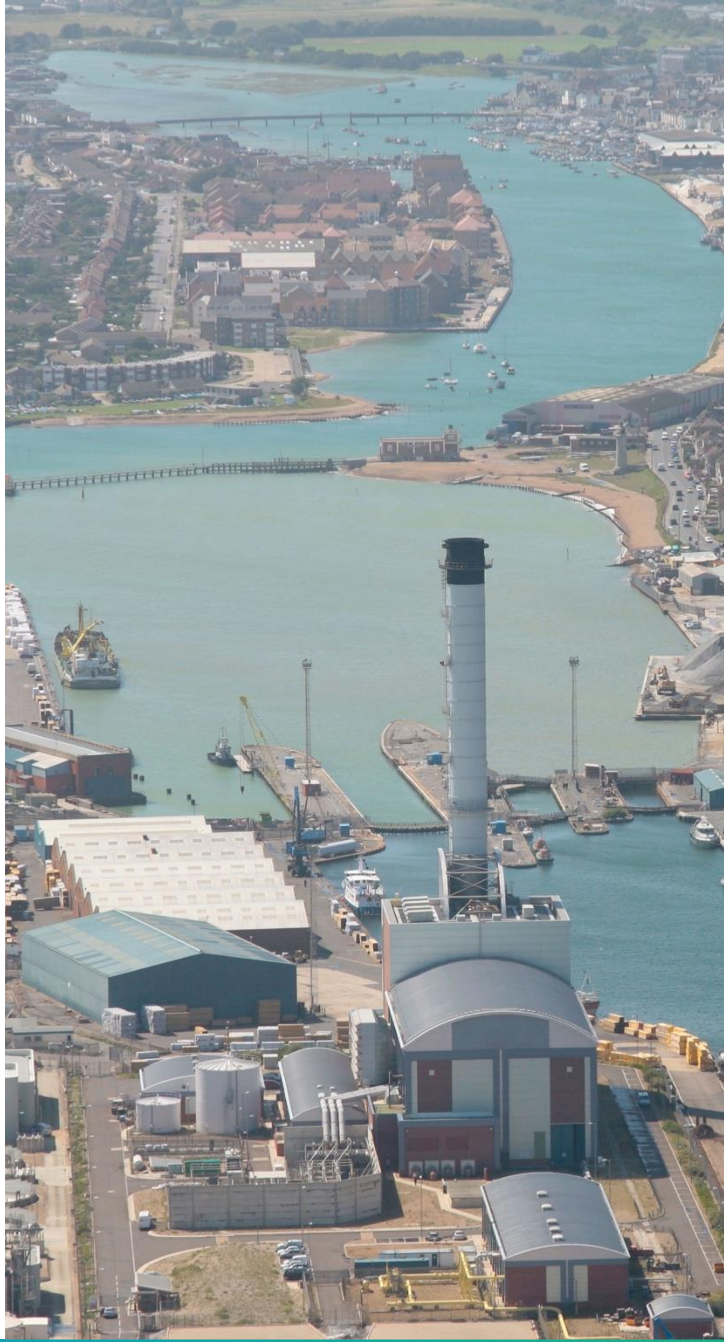
2019 FULL YEAR EXPECTATIONS UNCHANGED

2019 Current Estimate	Key Projects	Investment
Maintenance	Maintain operational performance	£50m
Acquired assets	Hydro and Gas	£30-35m
Enhancement	Efficiency improvement, including turbine upgrade Next generation customer systems	£40m
Strategic	Biomass self-supply capacity expansion Development of gas options	£45-55m
Other		£5-10m
Total		**£170-190m**

Emergent projects included within full year expectations

Expansion of US pellet production capacity (£10m)

Shoreham interim inspection (£10m) and option for future turbine upgrade



BALANCE SHEET
LONG-TERM STRUCTURES IN PLACE TO SUPPORT GROWTH

Good progress with refinancing of bridge facility

$200m fixed rate bond issue (completed May 2019)

Continue to expect to complete refinancing in 2019

Maintain credit rating

Supportive of trading strategy

Robust to low points in business cycle

On track for 2x net debt / Adjusted EBITDA by end of 2019[(1)]

Instrument	Maturity	Description
High yield bonds	2025	$500m
	2022	£350m
Revolving Credit Facility	2021 (+1)	£350m (including index-linked term loan)
Bridge facility	2020	£400m

1) Subject to reinstatement of Capacity Market

CAPACITY MARKET

2019 capacity payments

Continue to expect market to be reinstated in 2019

Retrospective payment for capacity

Accounting treatment

No revenue accrued in Generation

All cost accrued in Customers

Revenue recognised when market re-established

Iberdrola risk sharing mechanism

Up to £26m of protection

Adjustment to purchase price

Generation (£m)	H1 2019	H2 2019	2019 Total
Coal	11	11	**22**
Hydro and gas	23	23	**46**
Adjusted EBITDA impact if no capacity payments in 2019	**34**	**34**	**68**
Risk sharing mechanism			**(26)**
Net cash impact if no capacity payments received			**42**

Generation revenues received in 2018

H1 2018: £6m

H2 2018: £3m (£7 million for Q4 2018 not accrued)

STRATEGY UPDATE

ENABLING A ZERO CARBON, LOWER COST ENERGY FUTURE

Absolute increase in demand for electricity

Decarbonisation of heating and transport

Globally 70-85% of electricity from intermittent renewables by 2050[1]

>15% from complementary flexible sources – biomass, hydro, storage

How Drax is helping

Renewable biomass generation and supply chain

Flexible generation to support the energy system

Giving customers control of their energy

1) Intergovernmental Panel on Climate Change

BIOMASS HAS AN IMPORTANT ROLE TO PLAY
ENABLING A ZERO CARBON, LOWER COST ENERGY FUTURE

Committee on Climate Change

Supports forest growth and health

Commercially managed forestry consumes more CO_2 than unmanaged

Supports long-term investment in forest stocks

Opportunity for large-scale carbon negative generation

Committee on Climate Change (CCC)

- Biomass with Carbon Capture and Storage (BECCS) required to deliver UK target

Attractive option subject to appropriate regulatory framework

Growing demand for flexible, low-carbon and renewable energy sources

Biomass is an important source of system stability and security of supply

The only large-scale flexible renewable source of power

Process to reduce biomass cost to <£50/MWh by 2027

“We have assumed overall bio resource available to the UK of around 200 TWh… …This is equivalent to around 10% of UK primary energy consumption in 2050. Of this, 173 TWh goes into BECCS in 2050, providing 51 $MtCO_2$ of removals.”

“We previously recommended that the first CCS cluster should be in operation by 2026, with two clusters by 2030. For a net-zero target it is very likely that more will be needed”

CCC ‘Net Zero’ Report, May 2019

BIOMASS COST REDUCTION
US OPERATIONS – 2019 PROJECT HIGHLIGHTS

LaSalle rail spur
Investment: $15m
Reduced cost versus road haulage
450kt throughput, plus LaSalle expansion

LaSalle sawmill co-location
Investment: nil
Long-term sawdust agreement with Hunt Forest Products
Lower cost fibre
Reduced fuel handling / transport
Improved process efficiency
Reduced energy consumption

Baton Rouge chambering yard
Investment: nil (developed by rail operator)
Use of 80-car rail wagons (currently 45)
Reduced rail cost for LaSalle and Morehouse

Project cost savings for LaSalle
c.£10/MWh(1) on 450Kt pa

(1) At constant FX rate of $1.45/£

BIOMASS COST REDUCTION
US OPERATIONS – OTHER DEVELOPMENTS

350kt capacity expansion

LaSalle 150kt
Amite 100kt
Morehouse 100kt

Investment

£50m(1) (2019 to 2020)

Benefits

Increased capacity and throughput
Pellet and hammermill upgrades
Greater utilisation of low-cost sawmill residues and dry shavings
Pellet screening to improve quality
Improved process efficiency

Commissioning 2020/21

Project cost savings

>£20/MWh(1) on 350kt pa

Revised capacity

1.85Mt
>25% of current requirement

(1) At constant FX rate of $1.45/£

BIOMASS COST REDUCTION
UK DEVELOPMENTS

HP turbine upgrade programme (2019-2021)
Biomass units 1-3

Capital investment c.£40m

Improved thermal efficiency, reduced maintenance

Renewal of third party contracts (2020 onwards)
Award long-term contracts post 2027

Updated commercial terms

Research and innovation
Expansion of fuel envelope, including agricultural residues

Development of BECCS technology options

Turbine upgrade and improvements

c.£1/MWh

(3 biomass units from 2022)

BECCS – LARGE-SCALE CARBON NEGATIVE GENERATION AT DRAX

TECHNOLOGY OPTIONS AND DEVELOPMENT FRAMEWORK

Pilot studies at Drax Power Station

Organic solvent technology developed by C-Capture

- Chemical process for CO_2 removal
- Capturing one tonne of CO_2 per day
- Potential to capture 15m tonnes pa

Molten carbonate fuel cell technology developed by FuelCell Energy

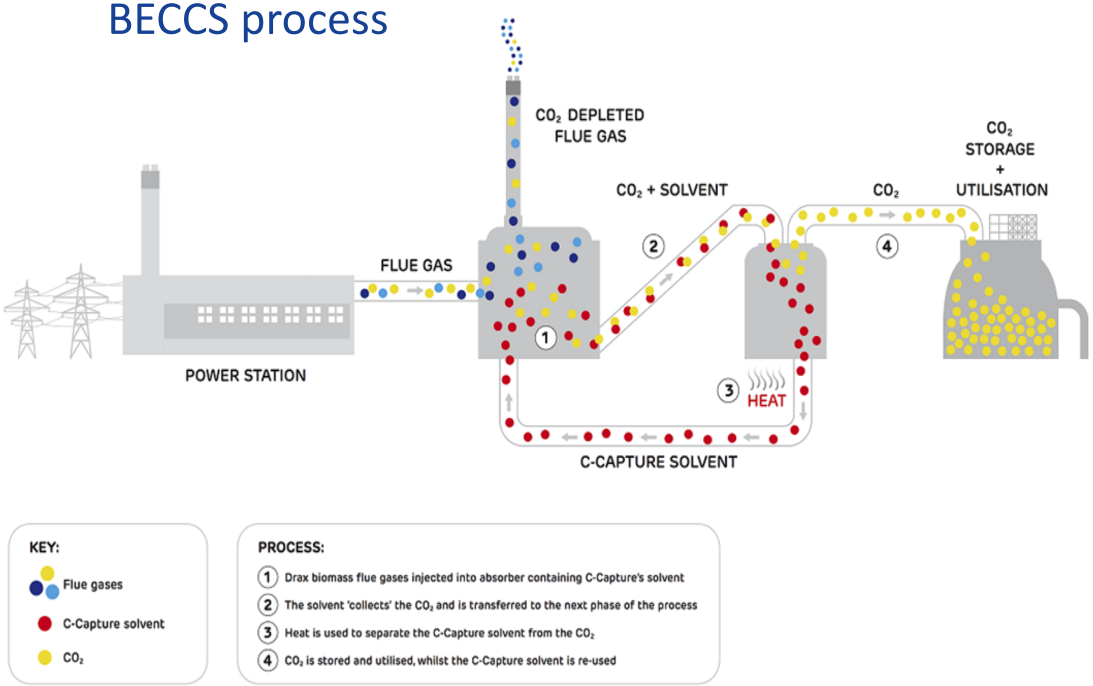
- Currently undertaking FEED study
- Capture and use of CO_2 to improve local agricultural yields

Humber Cluster

Memorandum of Understanding with Equinor and National Grid

Work with Government on policy framework to support BECCS

BECCS process



STRATEGIC PROJECTS – GAS

DEVELOPMENT OF OPTIONS FOR INVESTMENT IN TRANSITIONAL GAS TECHNOLOGIES

7-10GW of new gas capacity required

Transitional technology to deliver 2050 targets

Supports increased levels of wind, solar and nuclear

Development of options to meet system requirements

High efficiency CCGTs – full range of operations

- 1.8GW CCGT at Damhead Creek
- Up to 2 x 1.8GW at Drax Power Station

OCGTs – peak demand and system support services

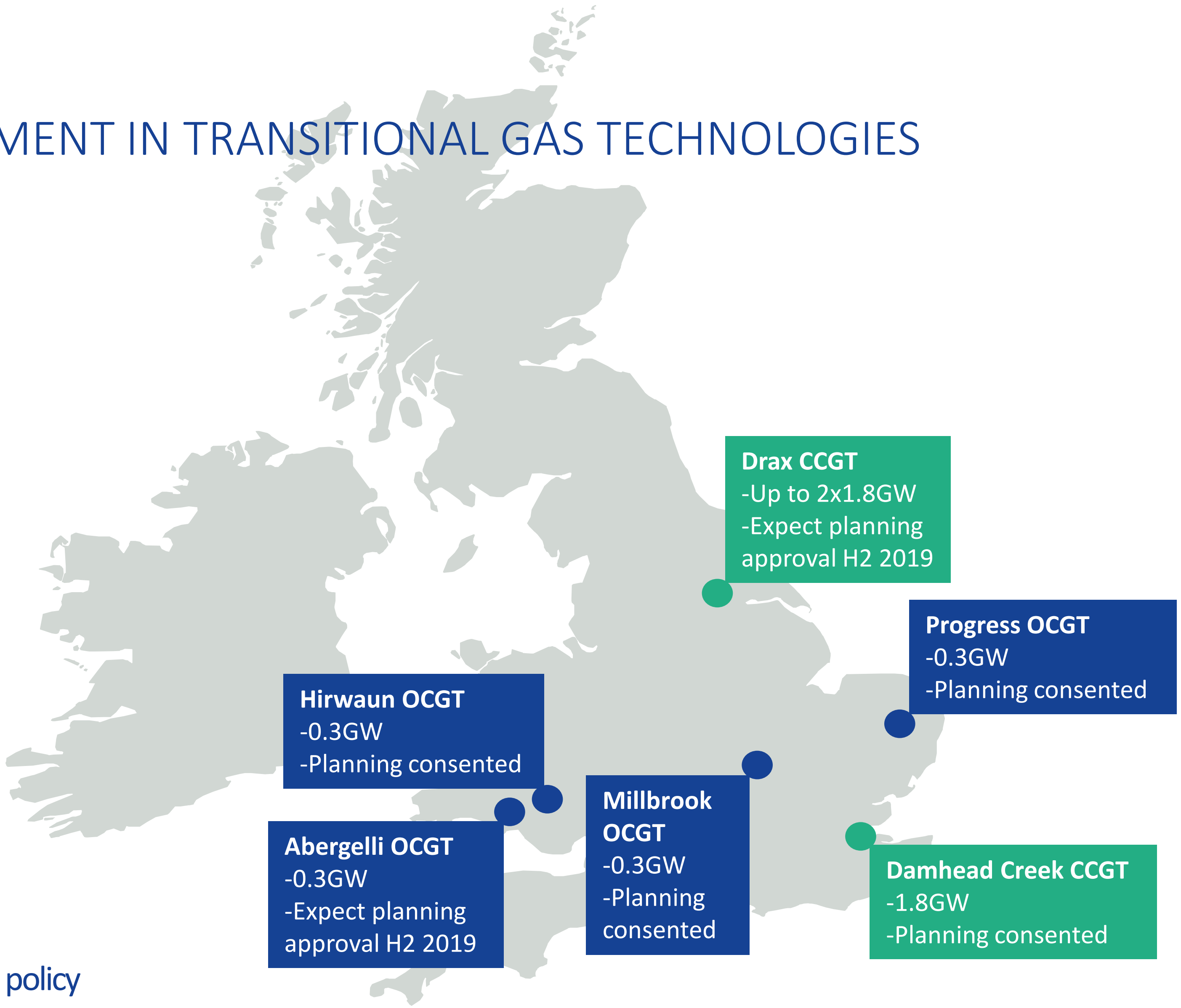
- 4 x 0.3GW – Wales and Eastern England

Attractive capital cost and locations

Other considerations

Appropriate level of Capacity Market support (T-3/4)

Phasing of projects consistent with objectives of capital allocation policy



OUTLOOK
FULL YEAR EXPECTATIONS REMAIN UNCHANGED

Operational performance

Higher levels of biomass generation in H2

Delivery of hydro and gas asset performance targets

Increase in pellet production and cost reductions

Improving Customers' business performance

Financial performance

Sustainable and growing dividend

Completion of refinancing in H2

Strategic

Continued focus on supply chain expansion and cost reduction

Development of attractive portfolio of gas generation options

QUESTIONS

APPENDICES

DRAX GROUP 2019
ENABLING A ZERO CARBON LOWER COST ENERGY FUTURE

UK's largest source of renewable generation
11% of UK's renewable power(1)

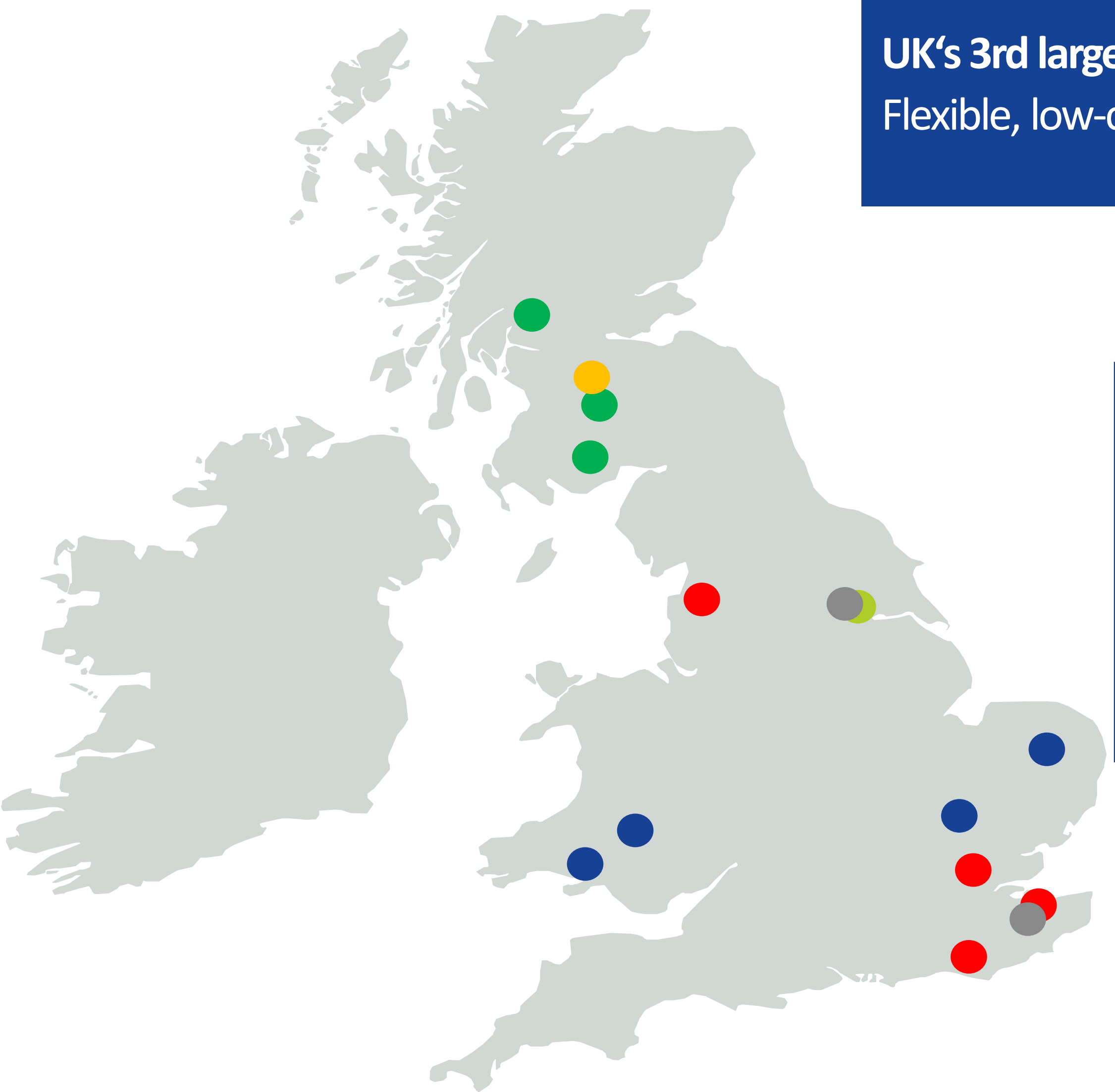
UK's 3rd largest energy generator
Flexible, low-carbon and renewable

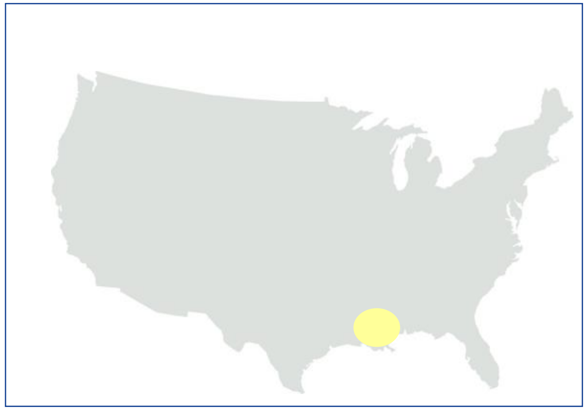
Multi-site, multi-technology portfolio
6.5GW capacity
- 2.6GW biomass
- 1.3GW coal
- 0.4GW pumped storage
- 0.1GW hydro
- 2.1GW CCGT

Development options
2 x 1.8GW coal to CCGT (Drax Power Station)
1.8GW CCGT (Damhead Creek)
4 x 0.3GW OCGT
Up to 0.4GW hydro expansion (Cruachan)

Customers
Leading challenger brands
- Haven Power / Opus Energy

US Gulf operations
1.5Mt pellet capacity (0.35Mt planned expansion)
2.4Mt export facility





- Biomass and coal
- OCGT option
- Pumped storage and hydro
- CCGT
- Daldowie
- CCGT option
- US Gulf

1) Q4 2018 to Q1 2019

INVESTMENT HIGHLIGHTS
STRATEGY ALIGNED WITH UK NET ZERO CARBON TARGET

High degree of earnings visibility, reducing commodity exposure	• 6.5GW portfolio of flexible, low-carbon and renewable generation • Reduced business risk – multi-site, multi-technology asset base • High proportion of non-commodity earnings – ROC and CfD renewables, system support services and capacity payments • Long-term fuel and fx hedging programme
Good underlying growth	• Index-linked CfD and ROC contracts • Growing role in provision of system support services • Profitable and growing biomass supply business • Reducing biomass cost base
Long-term growth options aligned to UK energy needs	• Generation – gas and hydro • BECCS – ability to deliver large-scale carbon negative generation • Biomass self-supply – low-cost supply chain to provide >30% of biomass requirement • Customers – development of scalable platform for growth
Strong financial position	• Strong balance sheet with appropriate leverage – on track for around 2x ND/EBITDA by end of 2019 • Generation portfolio supports reduced business risk • Strong cash conversion
Clear capital allocation plan	• Maintain credit rating • Invest in growing core business activities • Pay a sustainable and growing dividend • Return surplus capital to shareholders

GROUP INCOME STATEMENT

	HY 2019			HY 2018		
In £m	**Adjusted**	**Exceptional**	**Total**	**Adjusted**	**Exceptional**	**Total**
Revenue	2,227	5	2,232	2,079	(11)	2,068
Cost of sales	(1,863)	(4)	(1,867)	(1,801)	35	(1,766)
Gross profit	**364**	**1**	**365**	**278**	**24**	**302**
Adjusted EBITDA	**138**	**-**	**-**	**102**	**-**	**-**
Depreciation	(83)	-	(83)	(61)	-	(61)
Amortisation	(20)	-	(20)	(22)	-	(22)
Loss on disposal	-	-	-	(1)	-	(1)
Asset obsolescence charge	-	-	-	-	(27)	(27)
Acquisition and restructuring costs	-	(3)	(3)	-	(3)	(3)
Operating profit / (loss)	**35**	**(1)**	**34**	**18**	**(6)**	**12**
Foreign exchange gains	4	-	4	4	-	4
Net interest charge	(32)	(2)	(34)	(21)	(7)	(28)
Profit / (loss) before tax	**7**	**(4)**	**4**	**1**	**(13)**	**(11)**
Tax	1	(0)	(0)	6	2	7
Profit / (loss) after tax	**8**	**(4)**	**4**	**7**	**(11)**	**(4)**
Basic earnings / (loss) per share (pence)	**2.0**	**-**	**1.0**	**1.6**	**-**	**(1.0)**

GROUP CASH FLOW STATEMENT

In £m	HY 2019	HY 2018
Adjusted EBITDA	**138**	**102**
Working capital / other	89	21
Debt service	(23)	(18)
Tax	(7)	7
Net cash from operating activities	**197**	**112**
Capital investment including acquisitions	(760)	(48)
Net refinancing	549	3
Dividend	(34)	(30)
Share buy back	(3)	(13)
Other	6	(1)
Net cash flow	**(45)**	**23**
Cash and cash equivalents at the beginning of the period	289	222
Net cash flow	(45)	23
Cash and cash equivalents at the end of the period	**244**	**245**

POWER GENERATION – ADJUSTED EBITDA

In £m	HY 2019	HY 2018
Revenue		
Power sales	1,158	873
ROC sales	310	339
CfD income	117	165
Ancillary services income	31	9
Fuel sales	2	42
Other income	127	23
	1,745	**1,451**
Cost of sales		
Generation fuel costs	(660)	(544)
Fuel sold	(2)	(45)
ROC support	229	192
Carbon tax	(17)	(39)
Cost of carbon allowances	(14)	(3)
ROCs sold or utilised	(307)	(338)
Cost of power purchases	(691)	(478)
Grid charges	(21)	(24)
	(1,483)	**(1,279)**
Gross profit	**262**	**172**
Operating costs	(114)	(84)
Adjusted EBITDA	**148**	**88**

PELLET PRODUCTION – ADJUSTED EBITDA

In £m	HY 2019	HY 2018
Revenues	97	95
Cost of sales	(64)	(66)
Gross profit	**33**	**29**
Operating costs	(25)	(19)
Adjusted EBITDA	**8**	**10**

CUSTOMERS – ADJUSTED EBITDA

In £m	HY 2019	HY 2018
Revenue	**1,128**	**1,109**
Cost of sales		
Cost of power and gas purchases	(518)	(422)
Grid charges	(234)	(226)
Other costs	(304)	(387)
	(1,056)	**(1,035)**
Gross profit	**72**	**74**
Bad debt	(13)	(18)
Operating costs	(50)	(40)
Adjusted EBITDA	**9**	**16**

CONSOLIDATED ADJUSTED EBITDA

HY 2019 £m	Power Generation	Pellet Production	Customers	Adjustments	Consolidated
Segment Adjusted EBITDA	**148**	**8**	**9**	**(3)**	**162**
Core Services					(24)
Consolidated Adjusted EBITDA					**138**

HY 2018 £m	Power Generation	Pellet Production	Customers	Adjustments	Consolidated
Segment Adjusted EBITDA	**88**	**10**	**16**	**3**	**117**
Core Services					(15)
Consolidated Adjusted EBITDA					**102**

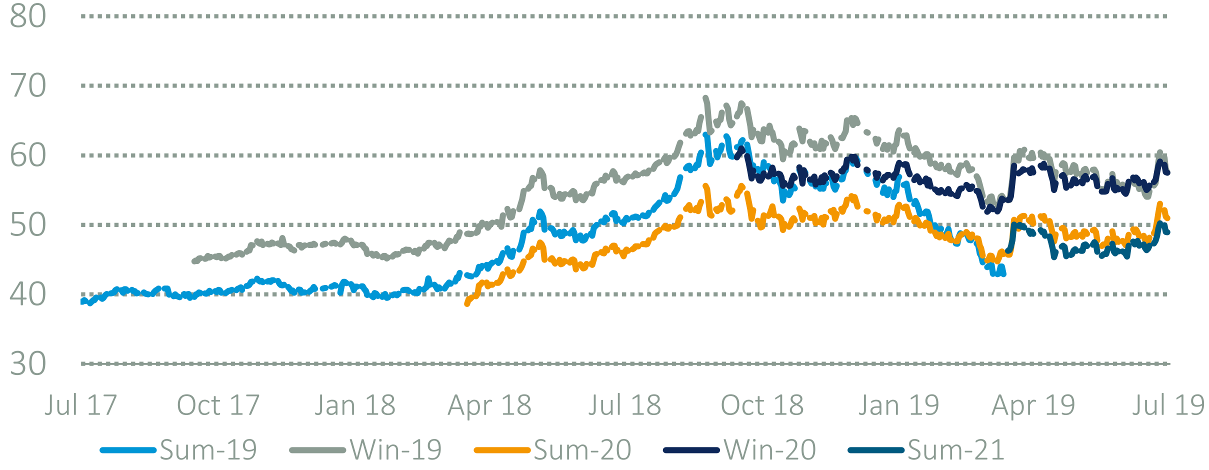
CONTRACTED POWER SALES

Contracted at 20 July 2019	2019	2020	2021
Power sales (TWh)	**17.3**	**11.3**	**5.4**
- Fixed price power sales (TWh)	17.8	11.4	4.8
At an average achieved price (£ per MWh)	56.7	54.6	51.1
- Gas hedges (TWh)	(0.5)	(0.1)	0.6
At an achieved price (pence per therm)	68.3	173.5	55.6

FORWARD COMMODITY PRICES

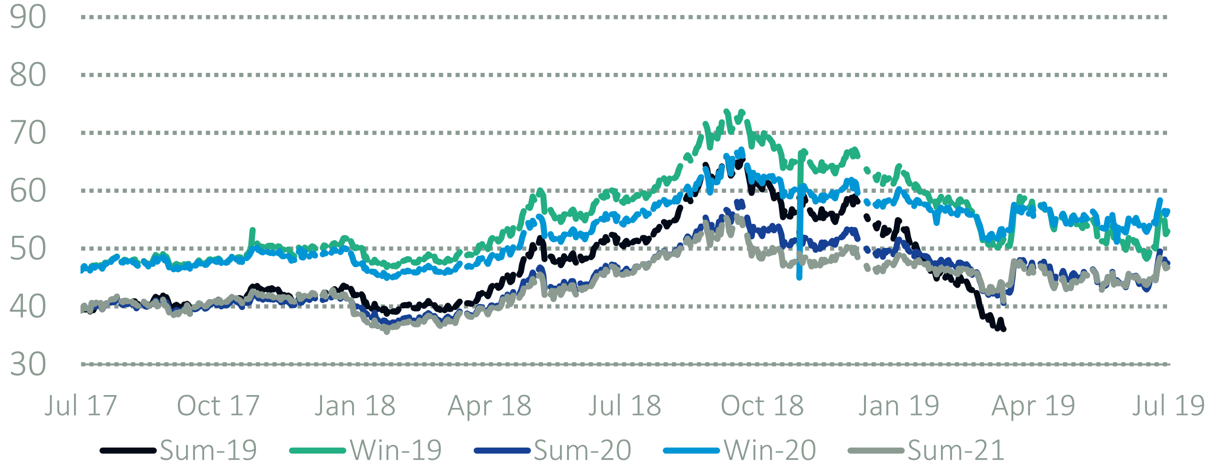
EU ETS Carbon (€/t)

Power Price (£/MWh)



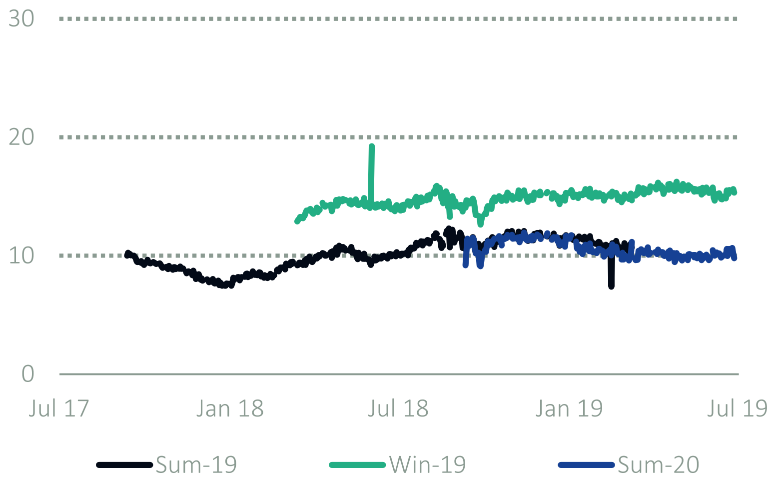
API2 Coal Price ($/t)

NBP Gas Price (p/therm)

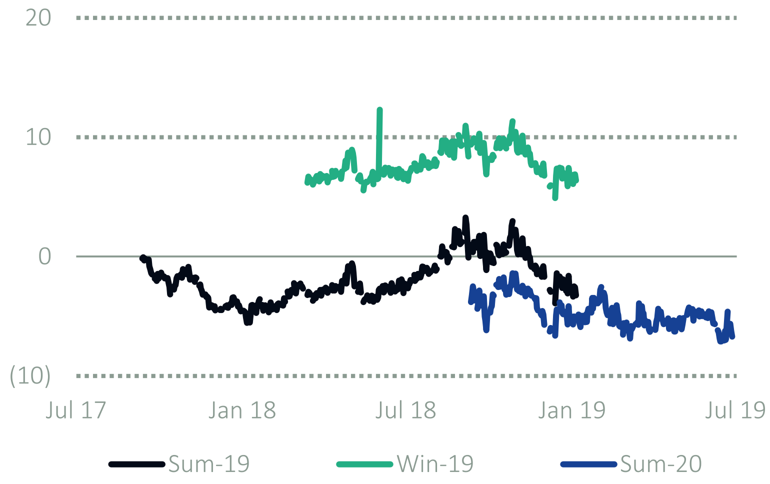


FORWARD SPREADS

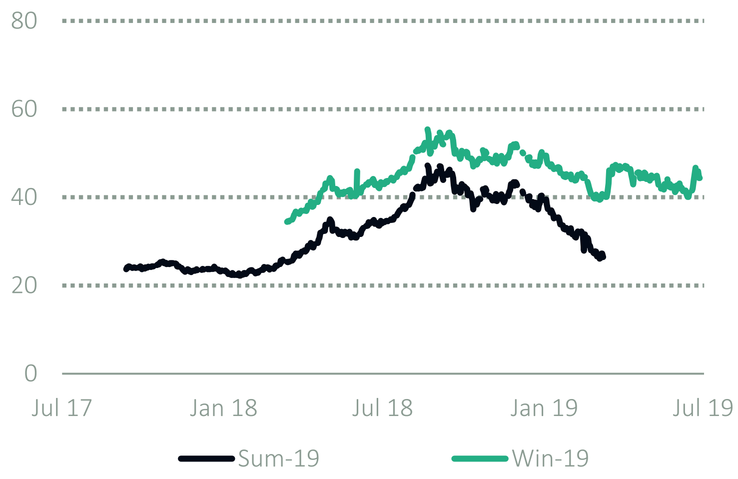
Peak CSS (£/MWh)



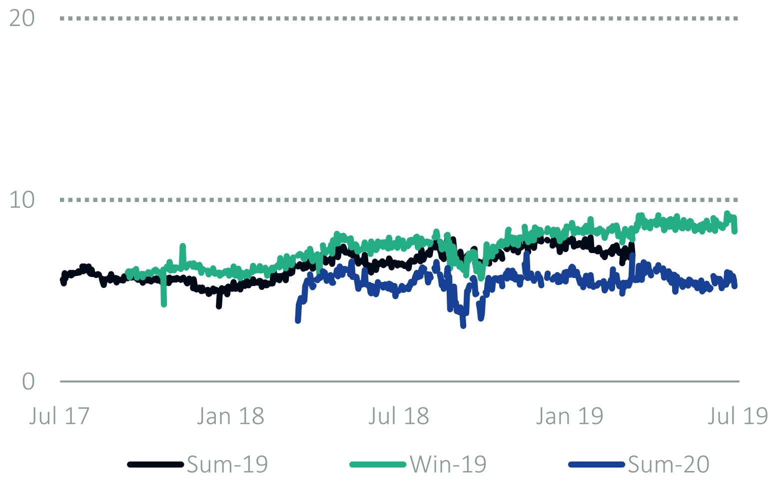
Peak DGS (£/MWh)



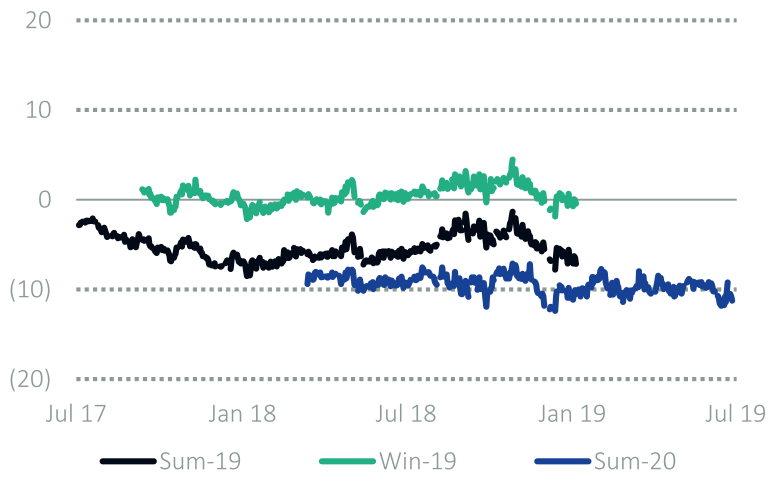
Peak ROC Bark Spread (£/MWh)



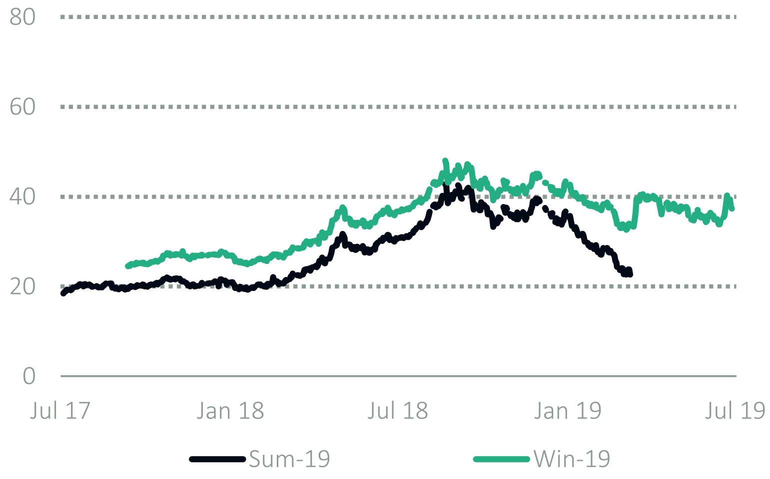
Baseload CSS (£/MWh)



Baseload DGS (£/MWh)



Baseload ROC Bark Spread (£/MWh)



2019
HALF YEAR RESULTS

6 Months Ended 30 June 2019

24 July 2019