

Half Year Results

6 Months Ended 30 June 2018

24 July 2018



Agenda

Operations and Business Review

Will Gardiner, CEO

Financial Review

Den Jones, Interim CFO

Delivering the Strategy

Will Gardiner, CEO

H1 2018 Performance Summary

Full year expectations unchanged, H1 impacted by two unplanned outages

Group

Strategy progressing well

Sustainable and growing dividend

Full year in line with expectations

Pellet Production

Increasing output, reducing cost

Third pellet plant commissioning

Power Generation

EBITDA lower due to two unplanned outages

Fourth unit conversion progressing

B2B Energy Supply

Growth in EBITDA and market share

Total Recordable Injury Rate

0.18 (H1 2017: 0.08)

EBITDA

£102m (H1 2017: £121m)

Interim Dividend

£22m (5.6p/share)

(H1 2017: £20m, 4.9p/share)

Expected FY Ordinary Dividend

£56m (2017: £50m)

Net Debt

£366m (Dec 2017: £367m)

Operations and Business Review



Safety and Sustainability

Safety

Good Group performance

- TRIR 0.18 (H1 2017: 0.08)

Sustainability

Biomass sustainability

- Proven carbon abatement⁽¹⁾
 - 86% saving versus coal
 - 64% saving versus gas
- Well established governance and audit process

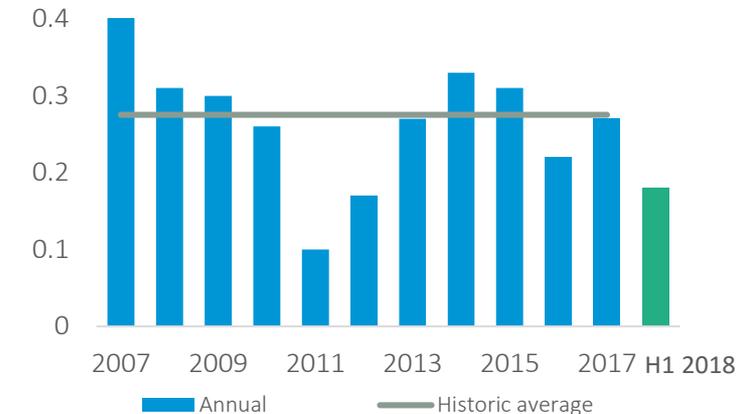
EU Renewable Energy Directive approved

- Supportive of sustainable biomass generation

Strong corporate governance

- Remuneration aligned with strategic objectives
- Engagement with institutional governance teams

Total Recordable Injury Rate (TRIR)



Carbon Life Cycle Emissions - CO₂-eq/MJ⁽²⁾



Pellet Production

Providing good quality pellets at lowest cost to Drax Generation business

Good financial and operational performance

£14m increase in EBITDA

80% growth in pellet production to 0.7Mt tonnes (H1 2017: 0.4Mt)

Optimising pellet quality vs. cost

12% reduction in cost per tonne

LaSalle Bioenergy commissioning ahead of plan

Full capacity Q1 2019

Co-location agreement signed with Hunt Forest Products

Evaluating opportunities for further capacity

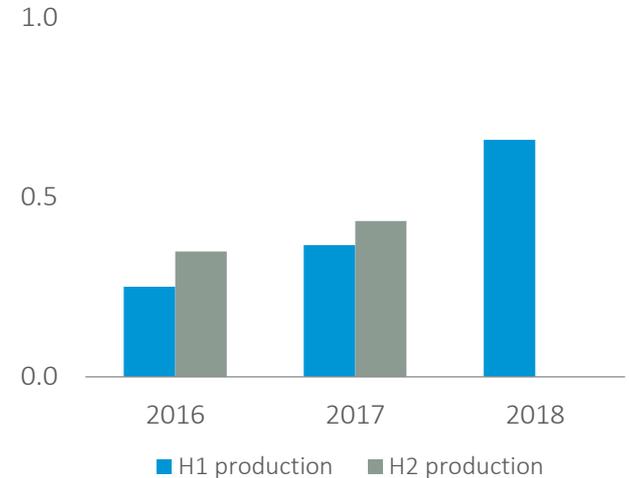
Existing capacity, opportunistic acquisition and new build

EBITDA

£10m

(H1 2017: £4m loss)

Pellets production (mt)



Power Generation

Flexible, renewable generation and system support services business

Reduced biomass generation due to unplanned outages

Optimised generation and supply chain to minimise impact in Q1

Good operational availability in Q2

Increasing low-carbon generation capacity

71% of generation renewable (H1 2017: 68%)

6% of revenues from coal-fired power sales

U4 conversion – on schedule and budget

Progress with strategic projects

Repowering planning application accepted for review

Third and fourth OCGT⁽¹⁾ projects accepted for planning review

EBITDA

£88m

(H1 2017: £137m)

Biomass
generation

6.3TWh

(H1 2017: 7.3TWh)

Total
generation

8.9TWh

(H1 2017: 10.7TWh)

System support and flexibility⁽²⁾

£36m

(H1 2017: £48m)

B2B Energy Supply

Profitable non-domestic supply business; growth in EBITDA and customer meters

Good operational and financial performance

Strong renewable proposition

59% renewable power sales

Route to market for over 2,000 small scale renewable generators

Investment in next generation IT systems

Platform for future growth and reduced cost to serve

Flexibility and system support market

Growing role for demand management and trading services

Smart meter growth will support new products to customers

EBITDA

£16m

(H1 2017: £11m)

Power sales

9.3TWh

(H1 2017: 8.9TWh)

Gas sales

1.7TWh

(H1 2017: 0.9TWh)

Market share

11% of SME⁽¹⁾ market

(H1 2017: 10%)

Customer meters

387k (H1 2017: 356k)

Financial Review



Financial Highlights

Den Jones – Interim CFO

EBITDA

£102m

(H1 2017: £121m)

Interim Dividend

5.6p (£22m)

(H1 2017: 4.9p, £20m)

Expected Full Year Dividend

£56m

(2017: £50m)

Underlying EPS⁽¹⁾

1.6p/share

(H1 2017: 2.2p/share)

Net Cash From Operating Activities

£112m

(H1 2017: £197m)

Net Debt⁽²⁾

£366m

(December 2017: £367m)

Progressing delivery of strategy

Improving profitability and earnings quality

Financial structures in place to support strategy

Strong cost and cash management

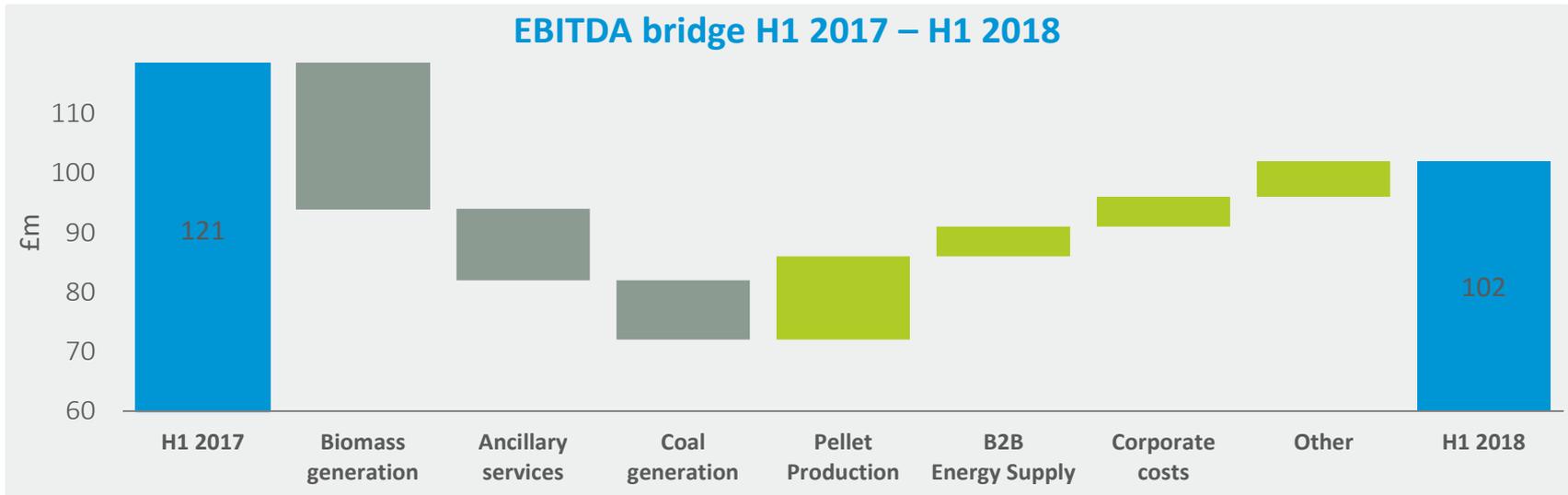


Financial Review

Income statement	H1 2018 £m	H1 2017 £m
Revenue	2,079	1,801
EBITDA	102	121
Depreciation and amortisation	(84)	(90)
EBIT	18	31
Net finance cost ⁽¹⁾	(16)	(19)
Tax	5	(3)
Underlying earnings⁽²⁾	7	9
Cash and balance sheet	H1 2018 £m	H1 2017 £m
Net cash from operating activities	112	197
Net debt	(366)	(372)

EBITDA Bridge H1 2017 – H1 2018

Full year EBITDA in line with expectations



Drivers of full year performance

Generation

U4 commissioning and improved generation margins

Biomass availability

T-4 capacity payments

Pellet Production

Increased production

Reduced cost per tonne

B2B Energy Supply

Continued growth in meter points

Net Cash Flow

Strong cash generation

In £m	H1 2018	H1 2017
EBITDA	102	121
Working capital / other	21	114
Debt service	(18)	(29)
Tax	7	(9)
Net cash from operating activities	112	197
Capital investment – maintenance and improvement	(48)	(56)
Capital investment – strategic		
- Opus Energy	-	(361)
- LaSalle Bioenergy	-	(27)
- OCGT options	-	(19)
Net refinancing / other	2	237
Dividend	(30)	(2)
Share buy back	(13)	-
Net cash flow	23	(31)

YTD working capital movement

Inventories

- Reduced biomass inventories – optimisation of supply and operation through outages and seasonal summer cycle

Receivables

- Seasonable variability and average achieved price of sales
- Utilisation of B2B Energy Supply working capital facility

Payables

- Energy Supply ROC obligation and Group procurement facilities

ROCs

- Increase in ROCs generated and held for sale

Investment – 2018

Full year expectations remain unchanged

Maintenance	Maintain operational performance	£50m
Improvement	Includes: <ul style="list-style-type: none">- Incremental improvements to generation- B2B energy supply platform- LaSalle Bioenergy rail spur	£20-£30m
Strategic	Includes: <ul style="list-style-type: none">- U4 conversion	£30m

Financial Structures in Place to Support Growth

Strong balance sheet

£350m fixed rate high yield bonds (April 2017)

- 2022 maturity

\$300m fixed rate high yield bonds (April 2018)

- Proceeds used to repay £200m floating rate bonds
- Removal of floating rate exposure
- Attractive all-in rate
- 2025 maturity

Maintain credit rating

Supportive of trading strategy

Robust to low points in business cycle

Rating reiterated by S&P and Fitch

Working capital management

Commitment to capital discipline

£350m fixed rate bonds
5-year maturity

\$300m fixed rate bonds
7.5-year maturity

£350m Revolving Credit
Facility⁽¹⁾

Clear Capital Allocation Policy

Commitment to capital discipline

Maintain credit rating

Invest in core business activities

Pay a sustainable and growing dividend

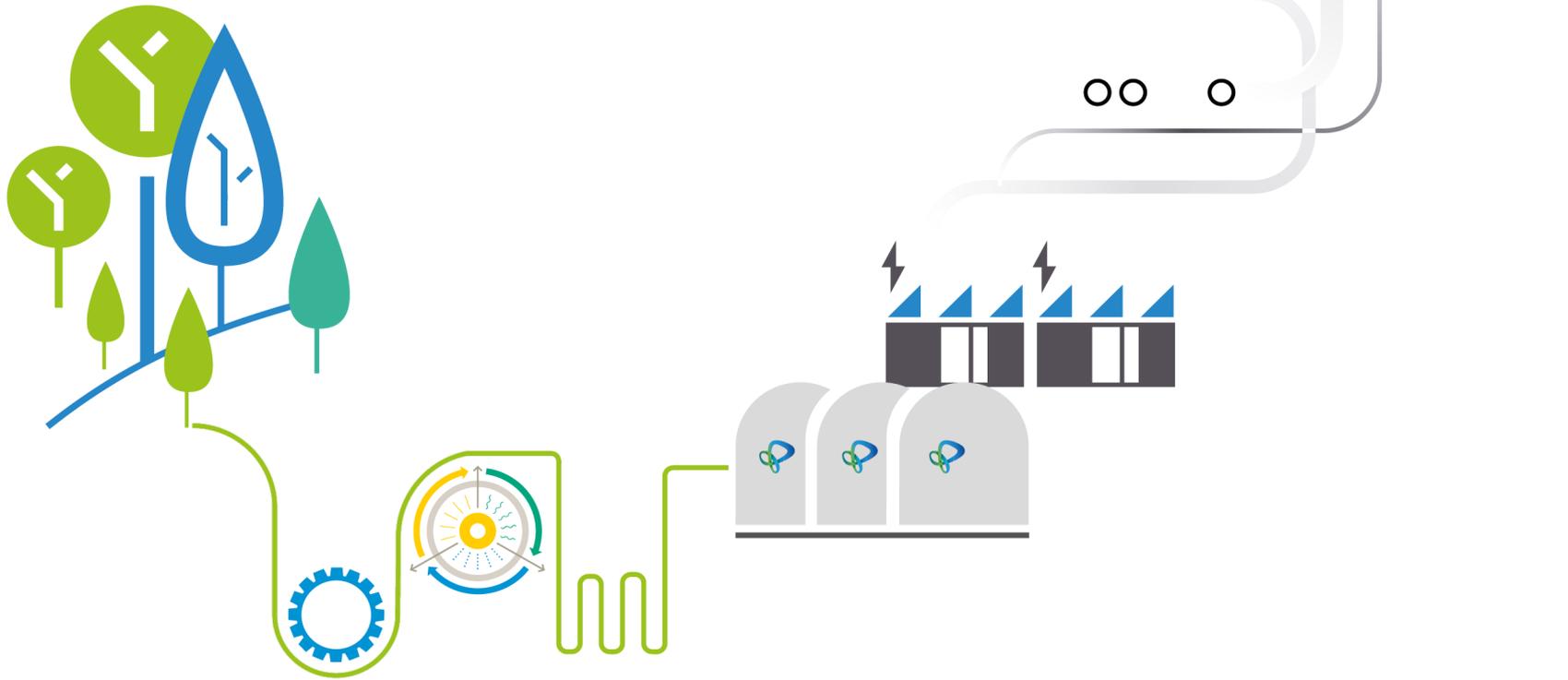
Return surplus capital to shareholders

2018 expected full year
dividend £56m

2018 interim
dividend £22m
(5.6 pence/share)

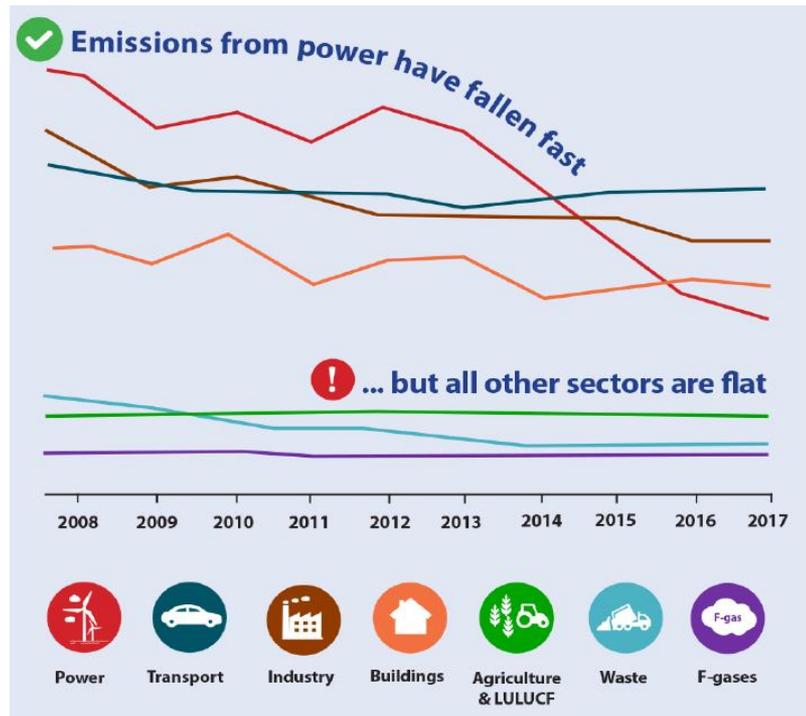
Commenced £50m
share buy-back
(April 2018)

Delivering the Strategy

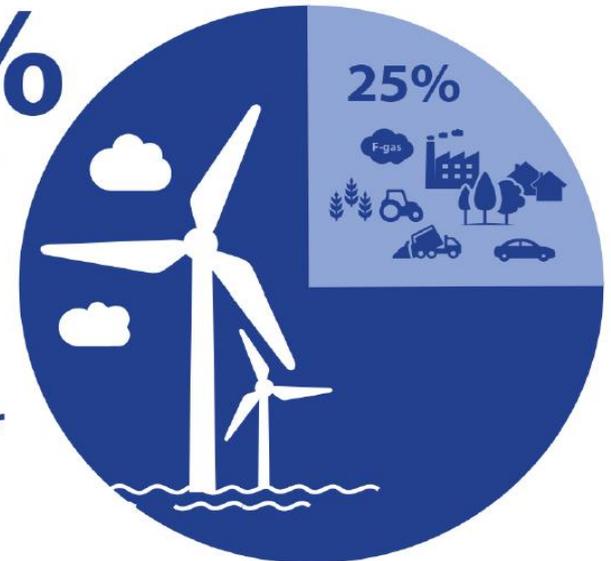


Changing UK Energy System

GHG emissions down 43% compared to 1990, more required to achieve 80% reduction by 2050⁽¹⁾



75%
of emissions
reductions
since 2012
have come
from the
power sector



Clear goals, ambitious strategy and well-designed policies have been effective. These lessons must now be applied to other sectors

Source: Reducing UK Emission – 2018 Progress Report to Parliament, Committee on Climate Change, June 2018

Drax proposition supports UK energy objectives: Flexible, lower carbon electricity and system support, enabling more intermittent and inflexible low-carbon generation

Development of Options for a Coal-free Future

Flexible, low-carbon generation and system support

Project	Description	Progress in 2018
Fourth biomass unit	<ul style="list-style-type: none"> • Optimise generation across all ROC units • Low capital cost 	<ul style="list-style-type: none"> • Unit conversion summer 2018 • On budget and schedule • Return to service late summer 2018
Open Cycle Gas Turbines (OCGTs)	<ul style="list-style-type: none"> • Option to develop four x 299MW OCGTs • Two sites with permits – participation in next T-4 auction • Investment subject to 15-year capacity agreements 	<ul style="list-style-type: none"> • Options progressed during H1 2018 • Reduction in expected cost range £80-£90m per unit • Third and fourth projects planning application accepted for consideration by Planning Inspectorate
Coal-to-gas repowering	<ul style="list-style-type: none"> • Option to convert two coal units to gas • Up to 3.6GW of capacity • Aligned with coal closure by 2025 • Investment subject to 15-year capacity agreements 	<ul style="list-style-type: none"> • Detailed planning application accepted by Planning Inspectorate • Targeting participation in future capacity auction
Bioenergy carbon capture and storage (BECCS)	<ul style="list-style-type: none"> • Development of low-cost option for BECCS • Potential for carbon negative generation 	<ul style="list-style-type: none"> • Commenced low-cost pilot project - £400k

Fourth Biomass Unit Conversion

Low-cost conversion of a further coal unit to biomass

Investment case

Low capital cost

125,000 additional ROCs per year (index linked to 2027)

Optimised generation across three ROC units with cap

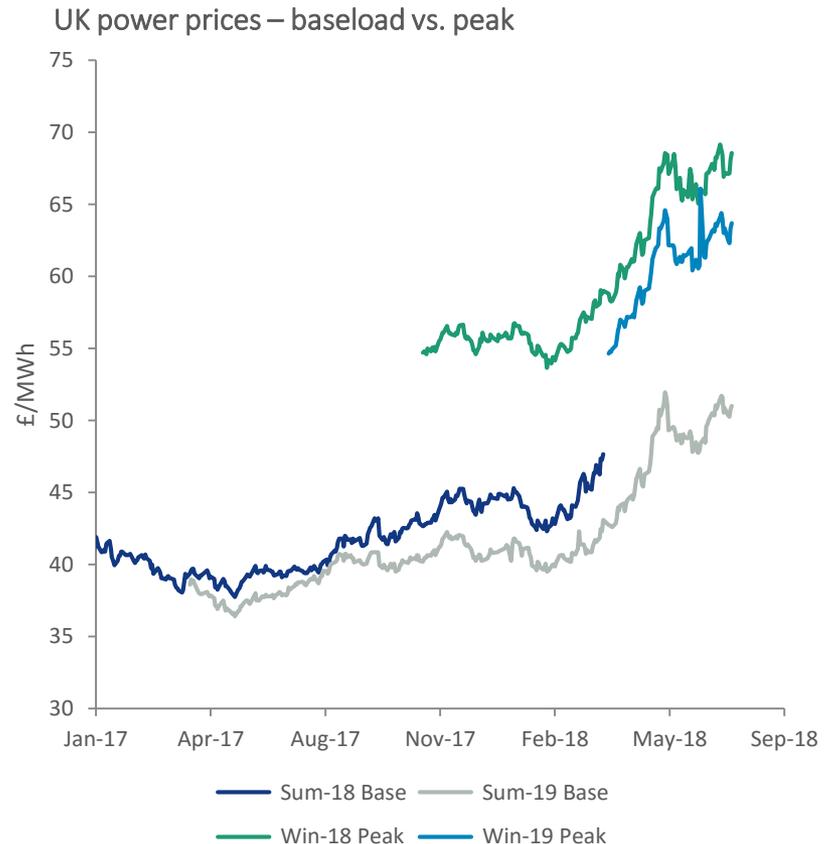
- Lower availability but run at periods of higher demand
- Higher average achieved prices

Self-insurance against unplanned outages

Conversion work progressing

Commissioning late summer 2018

Supportive of Government energy policy



Biomass Cost Reduction

Targeting >30% reduction in biomass cost by 2027

Reduce feedstock cost

Use a greater proportion of lower cost residues

Widen fuel envelope

Reduce process and transport cost

Eliminate stages of production process

Economies of scale in logistics

Improve plant performance

Operations, thermal efficiency and capacity of plant

– HP turbine upgrade

Introduce new technology

Opportunities across the supply chain to deliver improvement and savings



Biomass Cost Reduction

US Pellet Production – projects update

Co-location of new sawmill

Hunt Forest Products (HFP) to build new sawmill

- 850k tonne sawmill plant next to LaSalle pellet plant

Long-term offtake agreement with HFP

Operational savings for Drax

- Lower cost fibre
- Reduced fuel handling / transport
- Reduce stages in production process
- Reduced energy cost

Lower carbon footprint

LaSalle rail spur and loading facility

Rail transport to Baton Rouge port

Capital investment c.\$15m

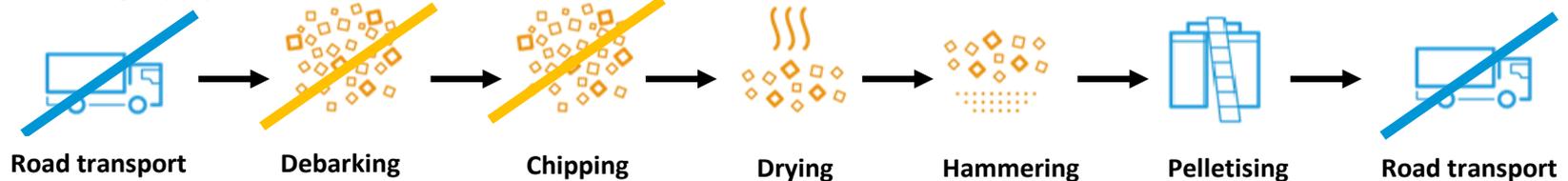
Construction 2018, operational 2019

Significant operational savings

- >\$10/tonne cost saving versus road transport

Lower carbon footprint

Delivering supply chain efficiencies



Drax Group 2025 EBITDA in Excess of £425m

High quality growing earnings across all areas of operation

Pellet Production

At least 30% self-supply

EBITDA >£75m⁽¹⁾



B2B Energy Supply

Leading UK energy supplier

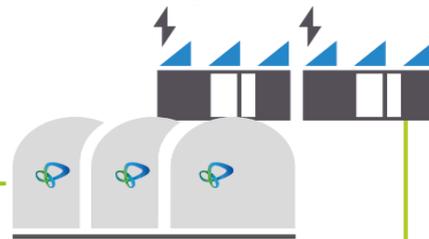
EBITDA >£80m⁽¹⁾



Power Generation

Key part of UK infrastructure

EBITDA >£300m⁽¹⁾



**Underpinned by safety, sustainability,
operational excellence and expertise in our markets**

H1 2018 Summary

Full year expectations unchanged, H1 impacted by two unplanned outages

H1 2018

Lower level of EBITDA reflecting two biomass outages

Sustainable and growing dividend in line with capital allocation policy

Financial structure in place to support growth

2018 full year

EBITDA expectations unchanged

Expect full year dividend of £56m

Investment in line with plan

Outlook

Increased earnings visibility

Growth in core business

Development of opportunities for low-carbon growth

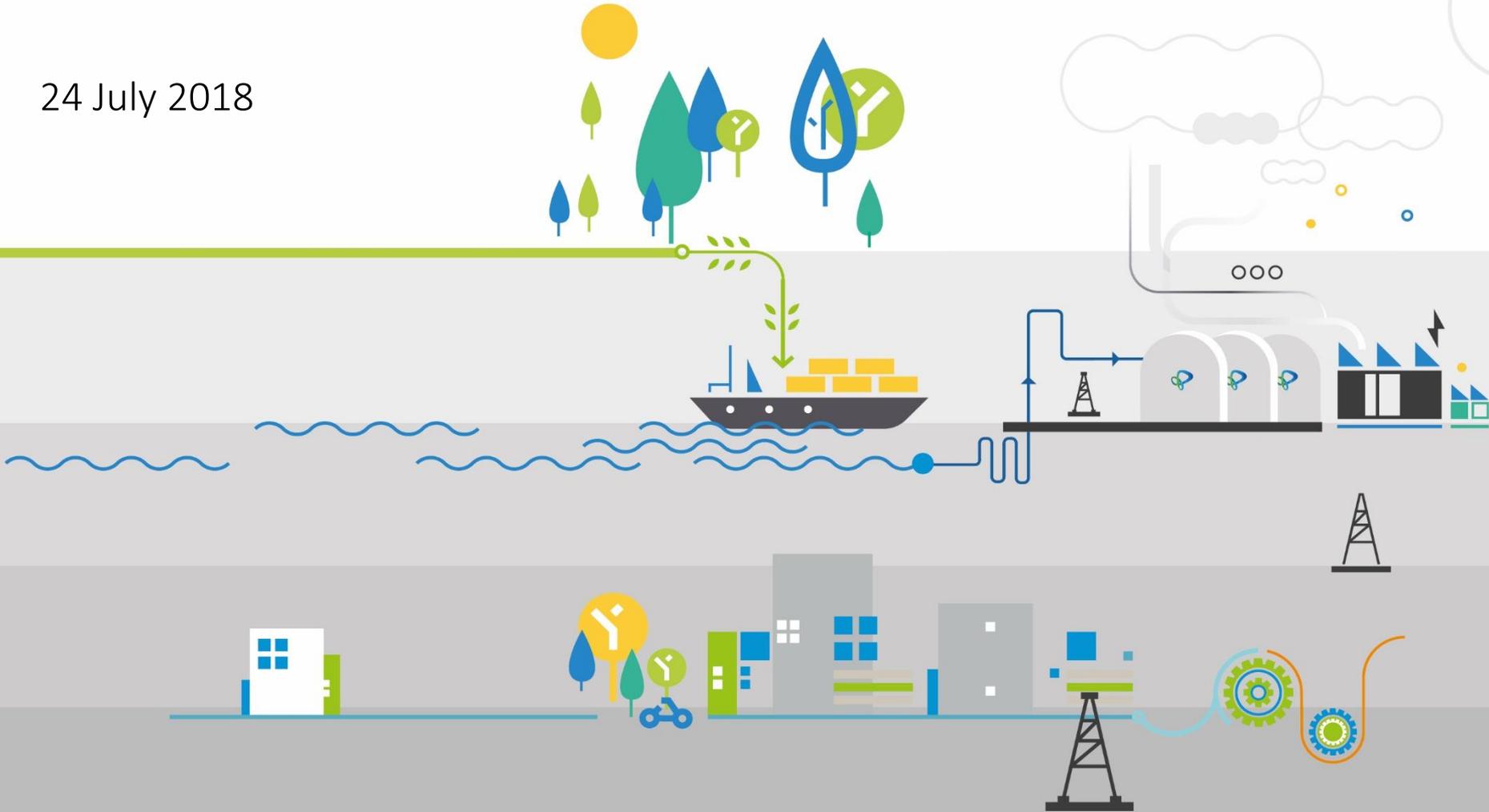
Strong balance sheet



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6 Months Ended 30 June 2018

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Appendices

1. Definitions
2. Group Income Statement
3. Group Underlying Earnings
4. Group Cash Flow Statement
5. Pellet Production – Gross Profit
6. Power Generation – Gross Profit
7. B2B Energy Supply – Gross Profit
8. Consolidated EBITDA
9. ROC Reporting
10. Tax Reconciliation
11. Group Balance Sheet
12. Contracted Power Sales
13. Commodity Price Movements
14. Forward Baseload Spread Movements

Appendix 1: Definitions

Abbreviation	Name	Description
BECCS		Bioenergy Carbon Capture & Storage.
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.
EBITDA		Earnings before interest, tax, depreciation, amortisation and material one-off items that do not reflect the underlying trading performance of the business.
EBIT		Earnings before interest and tax.
EPS		Earnings Per Share.
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.
OCGT		Open Cycle Gas Turbine.
Patent Box		The Patent Box enables companies to apply a lower rate of Corporation Tax of 10% to profits earned from the deployment of patented technology developed to manage the combustion process in generating electricity from biomass.
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.
TRIR	TOTAL RECORDABLE INJURY RATE	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries) / hours worked * 100,000.

Appendix 2: Group Income Statement

In £m	H1 2018	H1 2017	▲%
Revenue	2,079	1,801	
Cost of sales	(1,801)	(1,537)	
Gross profit	278	264	
Operating costs	(176)	(143)	
EBITDA	102	121	(16)%
Unrealised gains / (losses) on derivative contracts	24	(86)	
Depreciation and amortisation	(111)	(90)	
Other items	(3)	(6)	
Operating profit / (loss)	12	(61)	
Net finance credit	(23)	(43)	
(Loss) / profit before tax	(11)	(104)	
Tax credit	7	19	
Reported loss	(4)	(85)	
Underlying earnings	7	9	(22)%
Reported basic loss per share (pence)	(1)	(21)	
Underlying basic earnings per share (pence)	1.6	2.2	(27)%

Appendix 3: Group Underlying Earnings

In £m	H1 2018	H1 2017	▲%
Reported (loss) / earnings	(4)	(85)	
Unrealised losses / (gains) on derivative contracts	(24)	86	
Asset obsolescence charge	27	-	
Cost of refinancing	7	24	
Other items	3	6	
Tax impact of above adjustments	(2)	(22)	
Underlying earnings	7	9	(22)%

Appendix 4: Group Cash Flow Statement

In £m	H1 2018	H1 2017	▲%
EBITDA	102	121	
Working capital / other	21	114	
Debt service	(18)	(29)	
Tax	7	(9)	
Net cash from operating activities	112	197	(43)%
Capital investment – maintenance and improvement	(48)	(56)	
Capital investment – strategic			
- Acquisition of Opus Energy	-	(361)	
- Acquisition and commissioning of LaSalle Bioenergy	-	(27)	
- Acquisition of OCGT options	-	(19)	
Net refinancing	3	239	
Dividend	(30)	(2)	
Share buy back	(13)	-	
Other	(1)	(2)	
Net cash flow	23	(31)	
Cash and cash equivalents at the beginning of the period	222	228	
Net cash flow	23	(31)	
Cash and cash equivalents at the end of the period	245	197	

Appendix 5: Pellet Production – Gross Profit

In £m	H1 2018	H1 2017	▲%
Revenue	95	54	76%
Cost of sales	(66)	(41)	61%
Gross profit	29	13	123%

Appendix 6: Power Generation – Gross Profit

In £m	H1 2018	H1 2017	▲%
Revenue⁽¹⁾			
Power sales	873	888	
ROC sales	339	126	
CfD income	165	156	
Ancillary services income	9	21	
Fuel sales	42	3	
Other income	23	4	
	1,451	1,198	21%
Cost of sales			
Generation fuel costs	(544)	(601)	
Fuel sold	(45)	(2)	
ROC support	192	219	
Carbon tax	(39)	(50)	
Cost of carbon allowances	(3)	(20)	
ROCs sold or utilised	(338)	(125)	
Cost of power purchases	(478)	(383)	
Grid charges	(24)	(32)	
	(1,279)	(994)	29%
Gross profit	172	204	(16)%

Appendix 7: B2B Energy Supply – Gross Profit

In £m	H1 2018	H1 2017	▲%
Revenue	1,109	940	18%
Cost of sales			
Cost of power and gas purchases	(422)	(442)	
Grid charges	(226)	(207)	
Other costs	(387)	(241)	
	(1,035)	(890)	16%
Gross profit	74	50	48%

Appendix 8: Consolidated EBITDA

H1 2018 In £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment EBITDA	88	16	10	3	116
Central costs					(14)
Consolidated EBITDA					102

H1 2017 In £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment EBITDA	137	11	(4)	(2)	142
Central costs					(21)
Consolidated EBITDA					121

Appendix 9: ROC Reporting

ROC assets	In £m
At 31 December 2017	146
Generated	192
Purchased	369
Utilised or sold	(338)
At 30 June 2018	369

Balance sheet reconciliation

Generated – estimated benefit of generating electricity with biomass

Utilised or sold – original estimated balance sheet value charged to cost of sales on subsequent sale of ROC

Value at balance sheet date – estimate of cumulative ROC value generated not sold

Appendix 10: Tax Reconciliation

In £m	Reported		Underlying	
	H1 2018	H1 2017	H1 2018	H1 2017
Profit / (loss) before tax	(11)	(104)	1	13
Tax at UK CT rate	2	20	(0)	(3)
Adjustment to prior year taxes and other Items	5	(1)	5	(1)
Tax (charge) / credit	7	19	5	(4)

UK corporation tax (CT) rates

19% for 2018 and 19.25% for 2017

2018 underlying tax credit and rate

Underlying rate excludes after tax impact of unrealised gains and losses on derivative and material one-off items

Full year effective tax rate expected to be lower than UK tax rate of 19% principally driven by estimated Patent Box Claims for 2018, where profits associated with biomass patented technology are now subject to tax at 10%

Combined with a prior year credit in respect of the FY 2017 Patent Box Claim, where the methodology to derive the patent box income has now been agreed with HMRC, the total underlying tax credit for the period is £5m

Appendix 11: Group Balance Sheet

In £m	H1 2018	H1 2017	▲%
Non-current assets	2,267	2,396	
Current assets	1,409	1,399	
Current liabilities	1,047	987	
Non-current liabilities	936	934	
Net assets	1,693	1,874	(10)%
Shareholders' equity	1,693	1,874	

Appendix 12: Contracted Power Sales

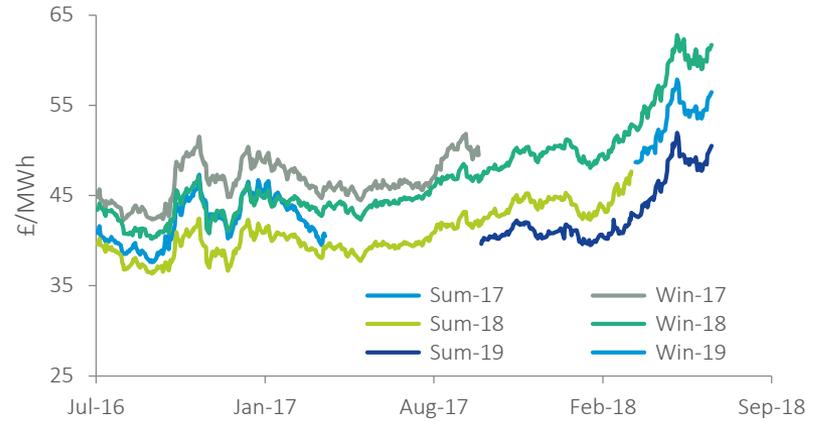
Contracted at 16 July 2018	2018	2019	2020
Power sales (TWh)	17.5	10.0	4.1
- Fixed price power sales (TWh)	17.4	9.4	3.5
At an average achieved price (per MWh)	£45.1	£47.9	£44.3
- Gas hedges (TWh)	0.1	0.6	0.6
At an achieved price per therm	(25.1)p	32.0p	46.4p

Appendix 13: Commodity Price Movements

EU ETS Carbon



Power Price (UK)



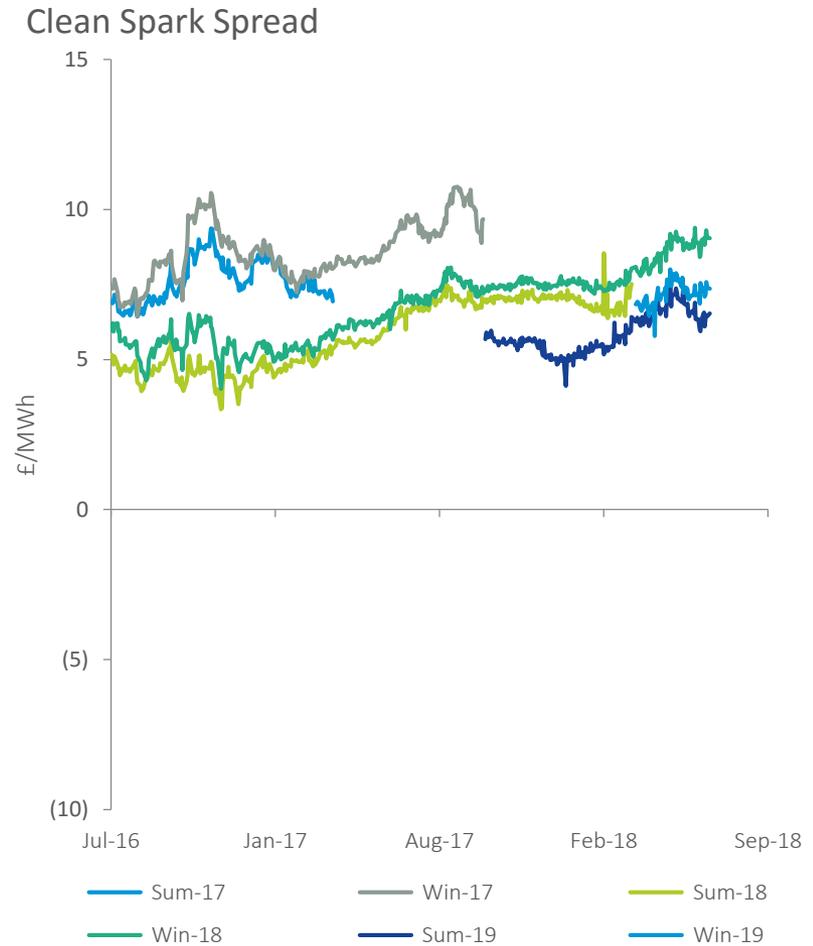
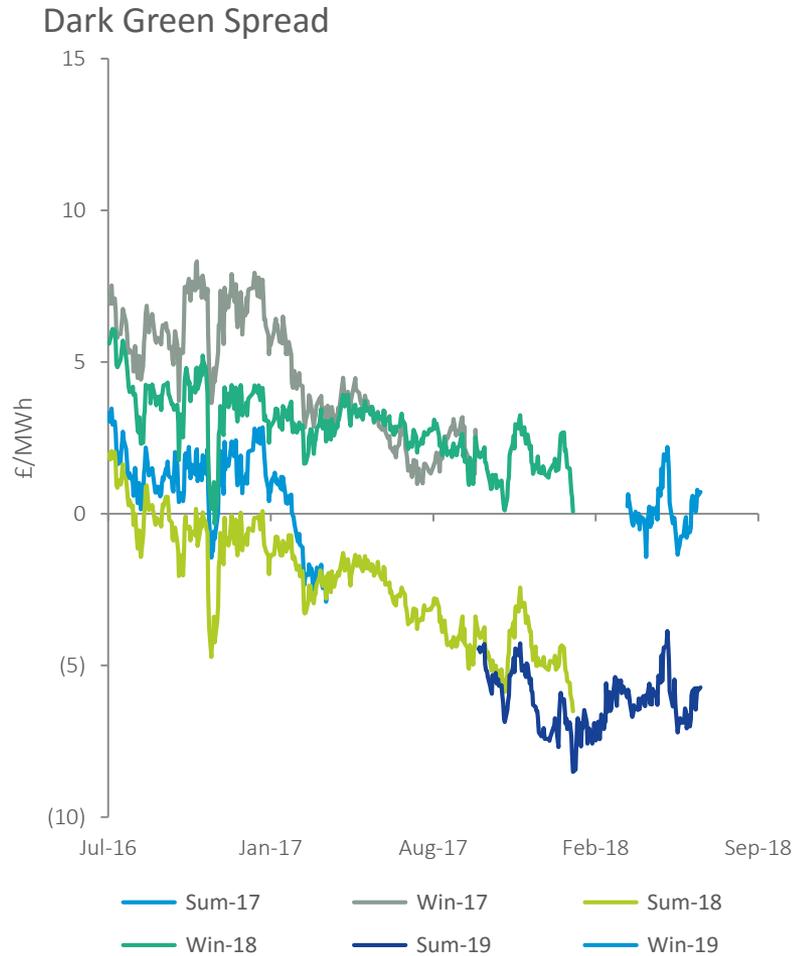
Coal Prices (API#2)



Gas Prices (NBP)



Appendix 14: Forward Baseload Spread Movements



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