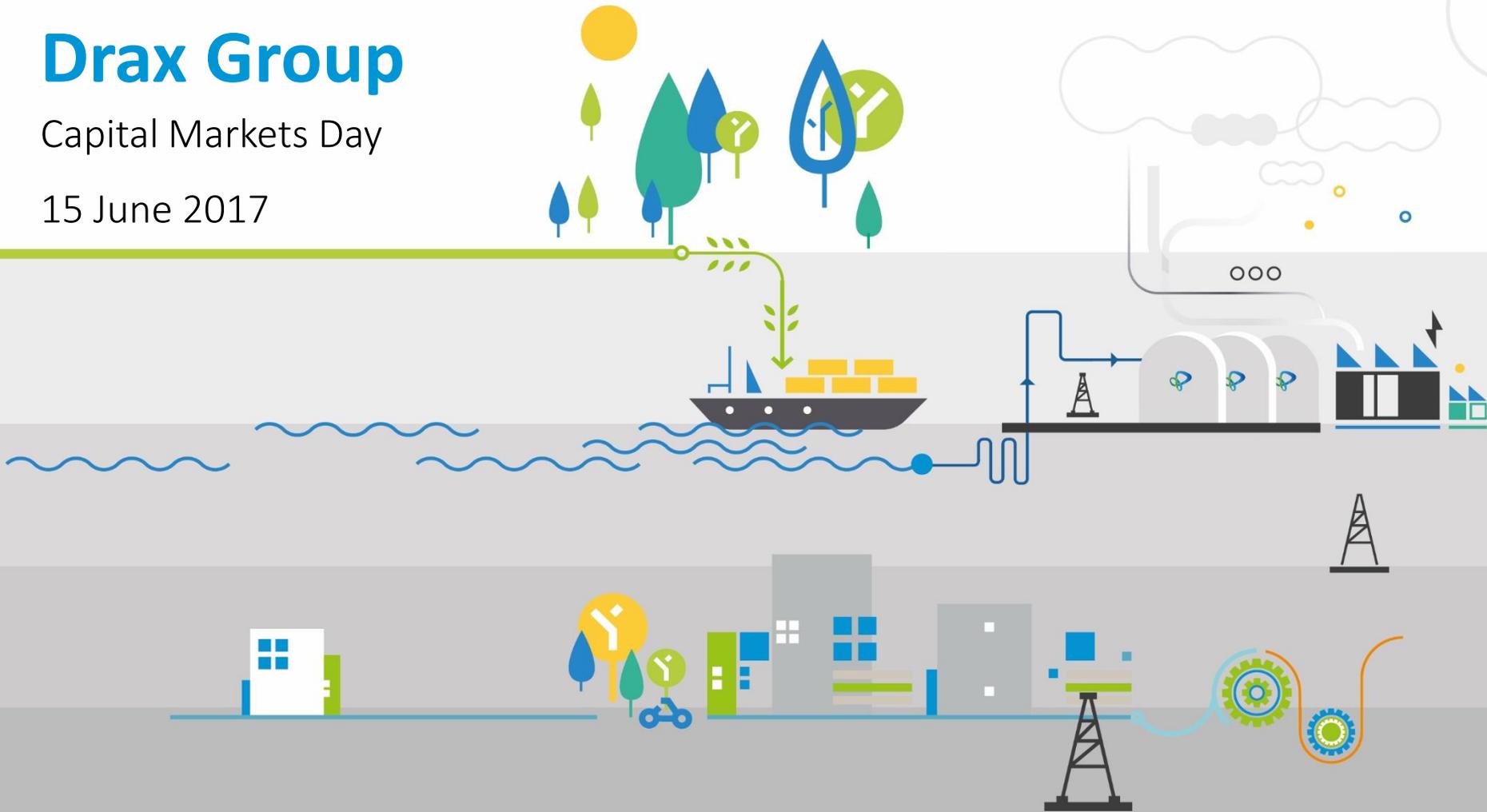




Drax Group

Capital Markets Day

15 June 2017



Presenters



DOROTHY THOMPSON, CBE
Chief Executive Officer
Drax Group



WILL GARDINER
Chief Financial Officer
Drax Group



ANDREW KOSS
Chief Executive Officer
Drax Power



JONATHAN KINI
Chief Executive Officer
Retail



PETE MADDEN
President and CEO
Drax Biomass



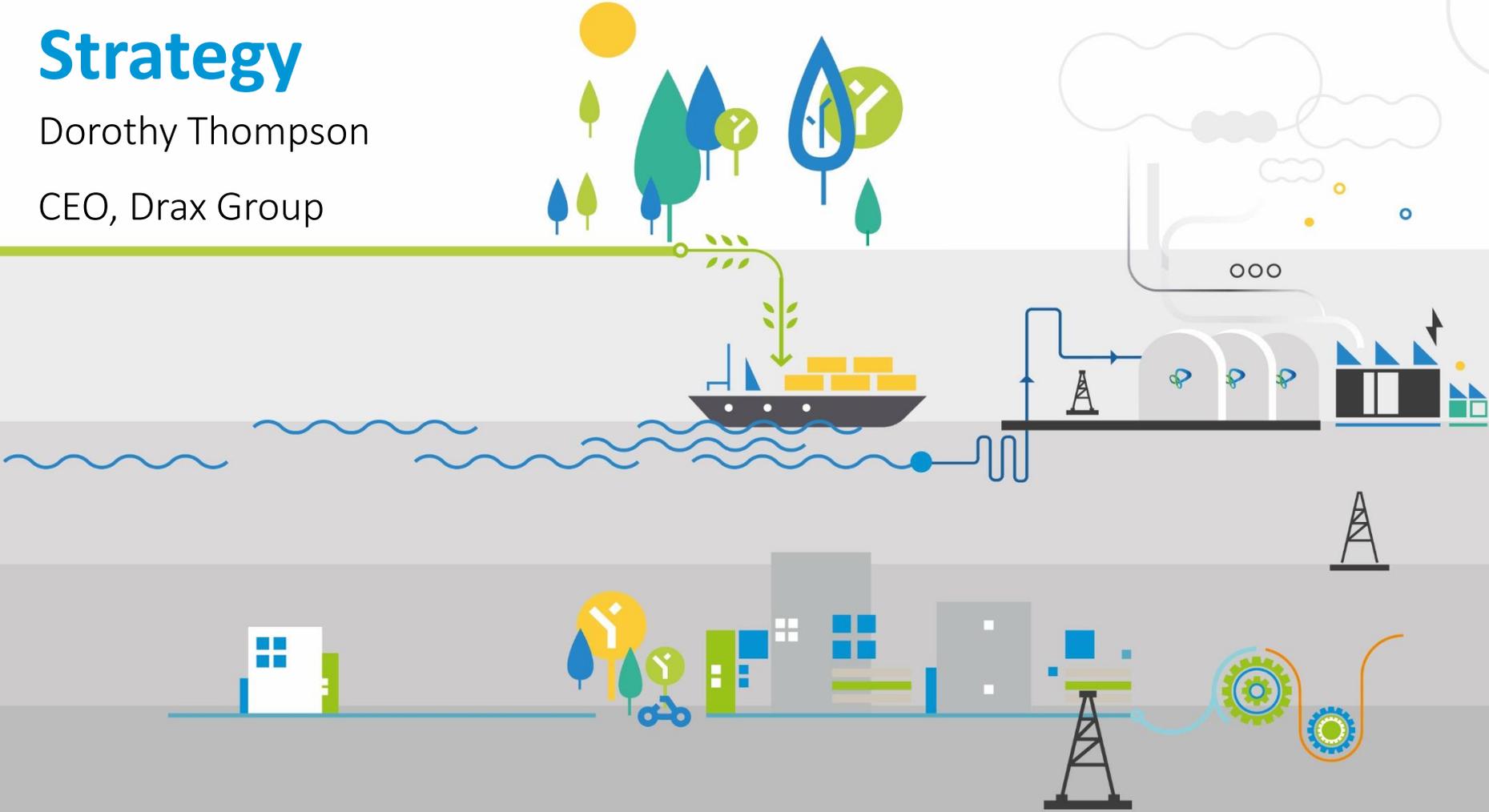
Agenda

9.30 – 9.45	Introduction and Strategy Dorothy Thompson
9.45 – 10.15	Retail – Haven Power and Opus Energy Jonathan Kini
10.15 – 10.45	Generation – Drax Power Andy Koss
	Q&A
10.45 – 11.15	Break
11.15 – 11.45	Biomass Supply – Drax Biomass Pete Madden
11.45 – 12.15	Financial Model Will Gardiner
	Q&A



Strategy

Dorothy Thompson
CEO, Drax Group



Helping Change the Way Energy is Generated, Supplied and Used for a Better Future

Our purpose

To help change the way energy is generated, supplied and used for a better future

How

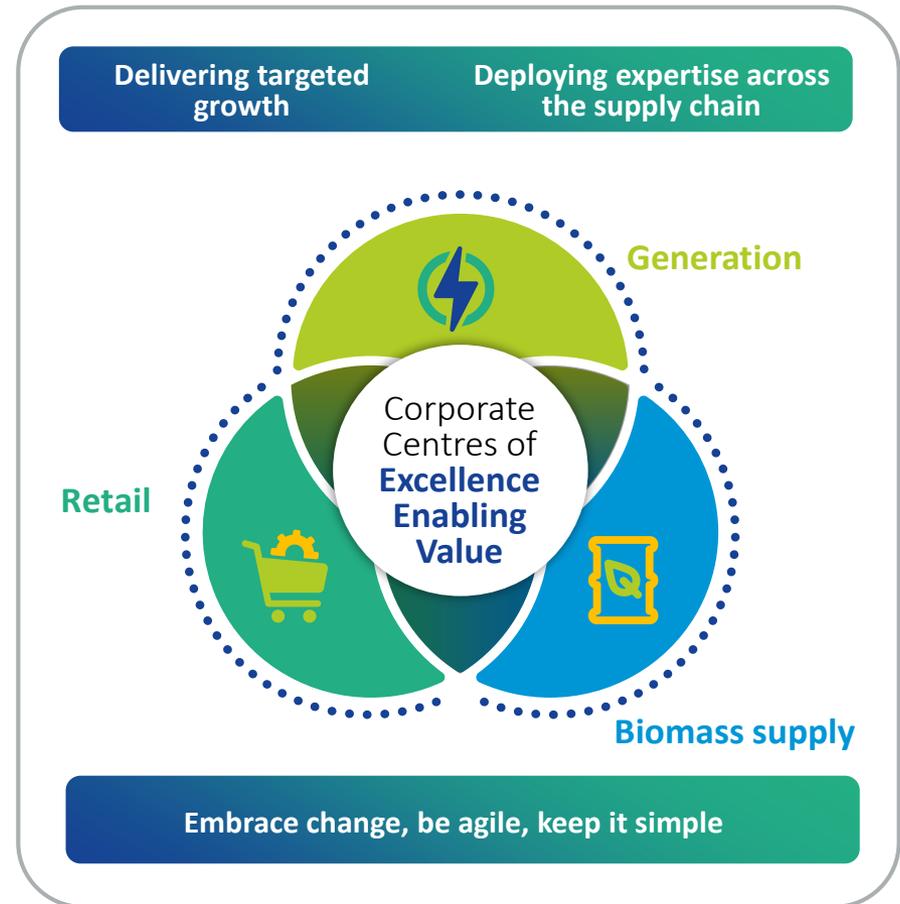
By providing inspiring, flexible energy solutions that make a difference to customers

Result

Predictable and growing earnings

Targeted investment in long-term growth

Prudent capital structure and financial policies



Drax 2025

High quality growing earnings across all areas of operation

Generation

Key part of UK infrastructure

EBITDA >£300m⁽¹⁾



Biomass supply

At least 30% self-supply

EBITDA >£75m⁽¹⁾



Retail

Leading UK energy supplier

EBITDA >£80m⁽¹⁾



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

(1) Excludes Central Costs

Investment Case



Clear strategy offering a strong growth opportunity



Key components of the Group in place, with continued earnings streams beyond 2027



Capital allocation supports growth strategy and dividend policy



Management team focused on driving operational excellence and innovation

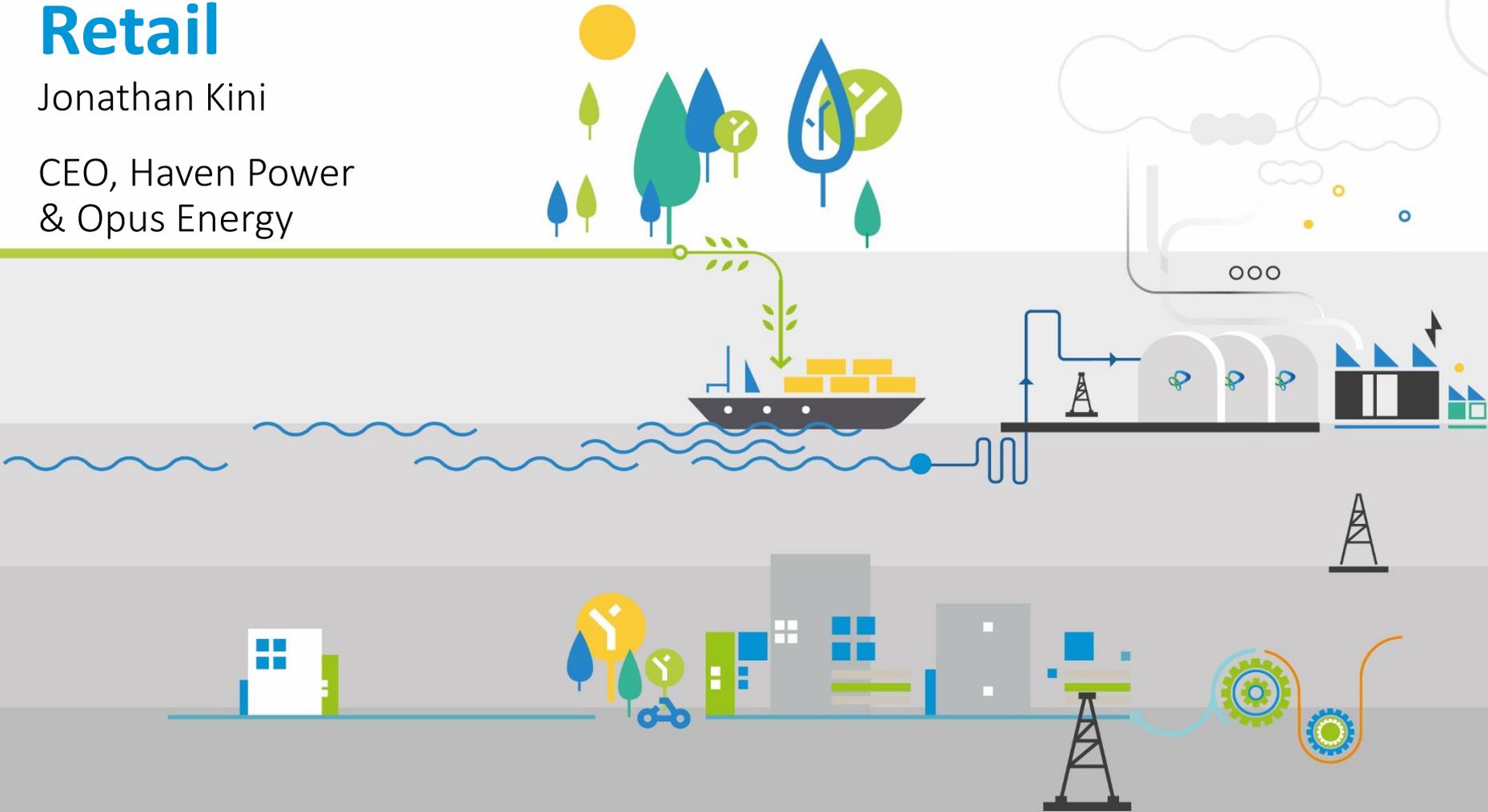




Retail

Jonathan Kini

CEO, Haven Power
& Opus Energy



Retail Strategy



A leading challenger

Continued strong growth in SME⁽¹⁾

Profitable I&C⁽²⁾

A growing retail annuity



Innovation

Commercial agility

Lowering cost to serve

Customer proposition



Market differentiation

Focus on customers

Make renewables and sustainability simple

Inspire change in energy use

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

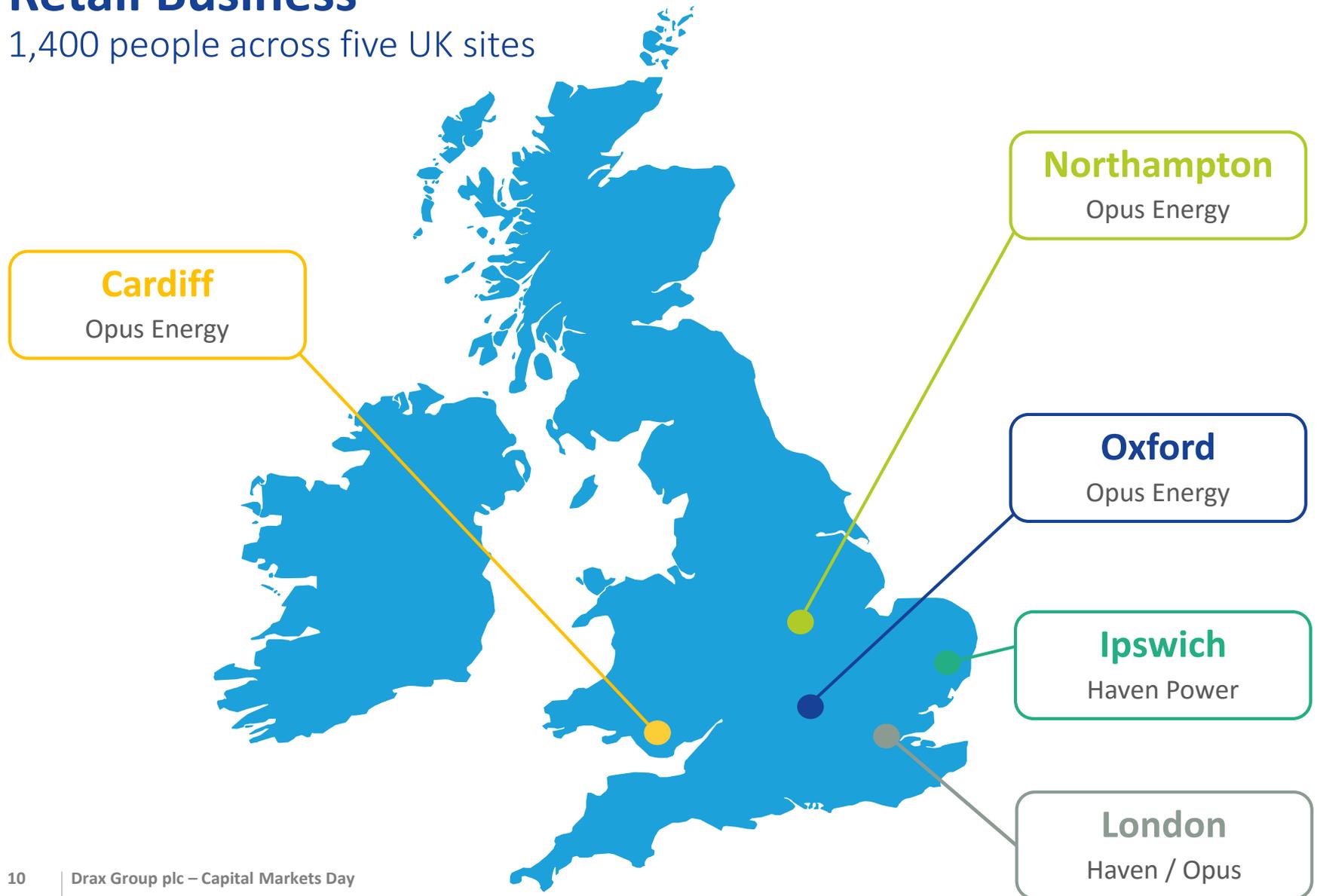
(1) Small and Medium-sized Enterprise

(2) Industrial & Commercial



Retail Business

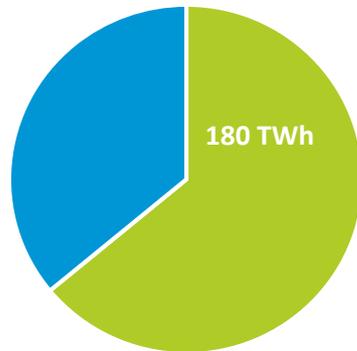
1,400 people across five UK sites



Business to Business (B2B) Market

A major market with over five million businesses

UK retail electricity consumption
c.300 TWh



■ B2C (Domestic) ■ B2B

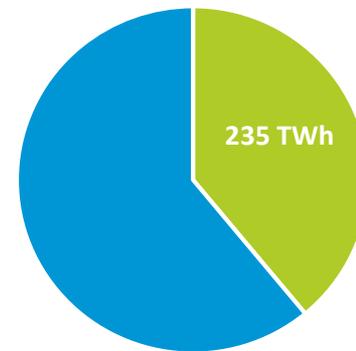
~2.5m B2B meters⁽¹⁾

Big 6 market share

2016 – 70%

2012 – 78%

UK retail gas consumption
c.600 TWh



■ B2C (Domestic) ■ B2B

~0.9m B2B meters⁽²⁾

Big 6 market share

2016 – 17%

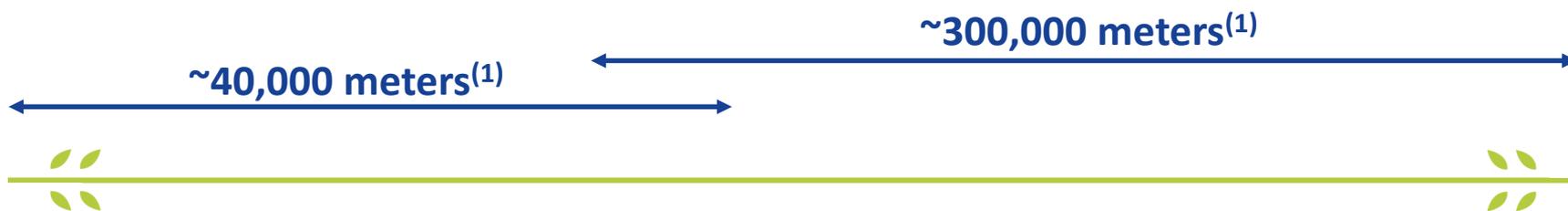
2012 – 21%

(1) Business Electricity Market Share Assessments, October 2016. Report by Cornwall Energy (January 2017)

(2) Business Gas Market Share Assessments, October 2016. Report by Cornwall Energy (January 2017)

Our Customers

Over 340,000 meters in electricity & gas



<p>I&C Small number of large users</p>	<p>SME Large number of customers, wide range of business profiles</p>
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Opportunities for power, gas, renewable and value adding services across our markets

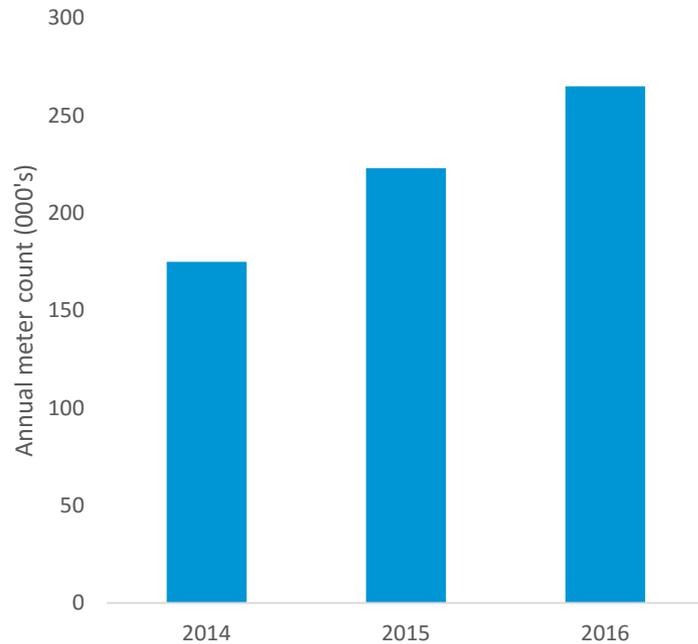
Opus – target growth in SME market sector
Haven – target growth in larger customers in mid market sector
Haven – profitability in I&C

(1) At March 2017

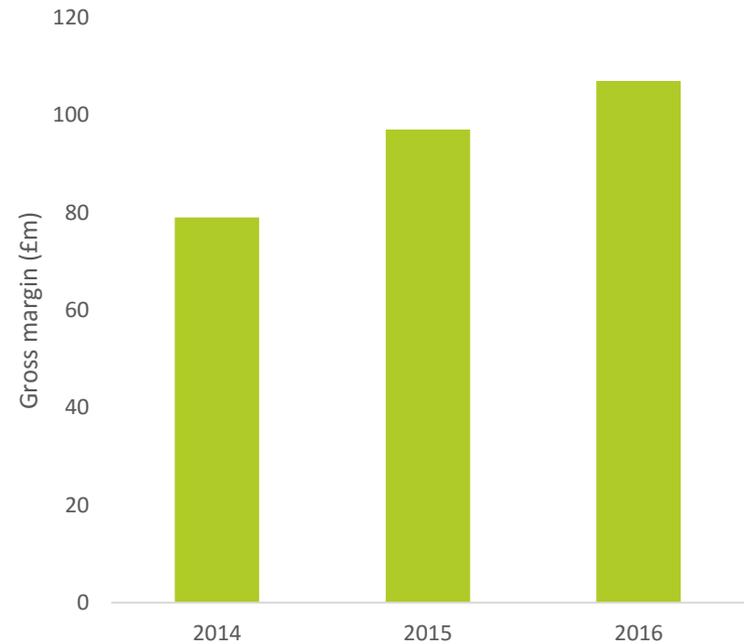
Opus Energy

Track record of SME market share growth and profitability

Annual meter count over period
2014 - 2016



Annual gross margin over period
2014 - 2016



Opus Energy

Delivering the strategy



A leading challenger

Increase SME
market share

Strong TPI⁽¹⁾ relationships

Increase product holding
of base

Retention



Innovation

Customer service
– easy to do
business with

Tie up with
Renewables

Cost to serve – online



Market differentiation

Certainty

Understand
business needs;
expertise in
SME market

Speed of execution

(1) Third Party Intermediary

Opus Energy

Differentiating in the market



**Strength of service to
Customers and TPIs**



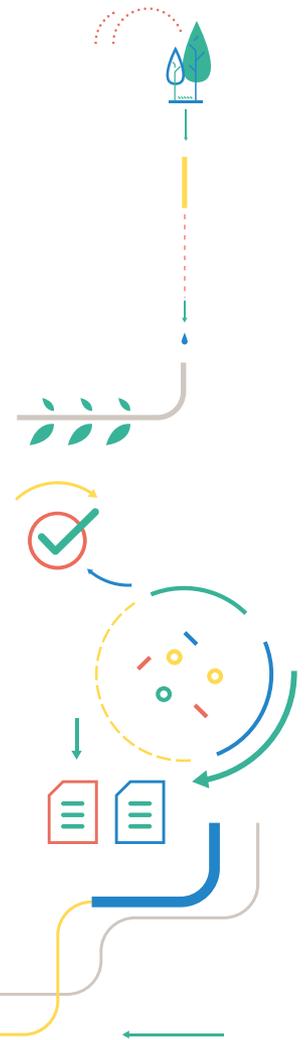
**Expanding product
offering to new segments**



**Comprehensive
online service**



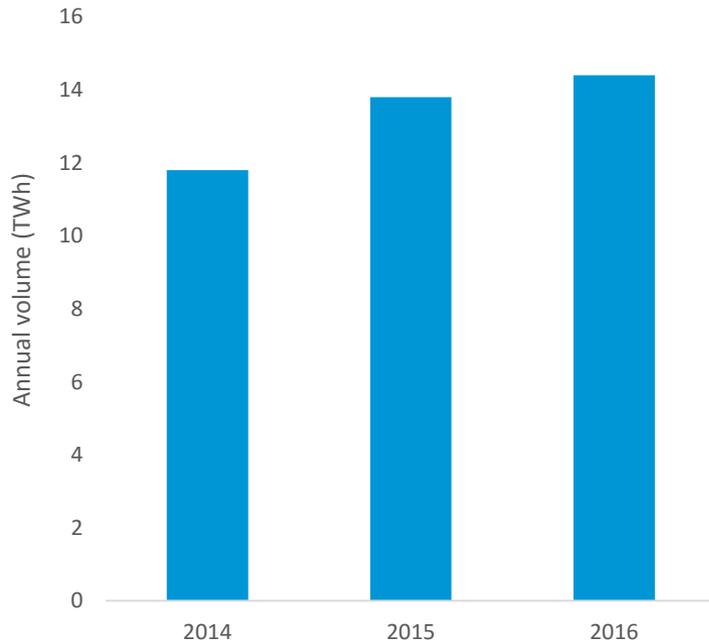
**Understand the value
of certainty to the
SME market**



Haven Power

Growth and increasing profitability in I&C / SME markets

Annual supply volume over period
2014 - 2016



Annual gross margin over period
2014 - 2016



Haven Power

Delivering the strategy



A leading challenger

Sales volume

I&C profitability

SME growth



Innovation

Renewable tariff
products

New platform



Market differentiation

Better use of energy

Partnerships

Haven Power

Differentiating in the market



Flexible contracts



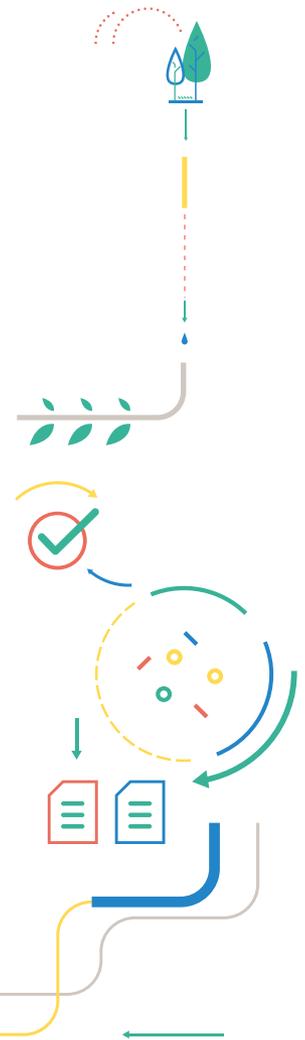
Demand side response



Energy efficiency and consulting services



Budget tracking



Opus Energy – On-boarding

Areas of focus in 2017

1

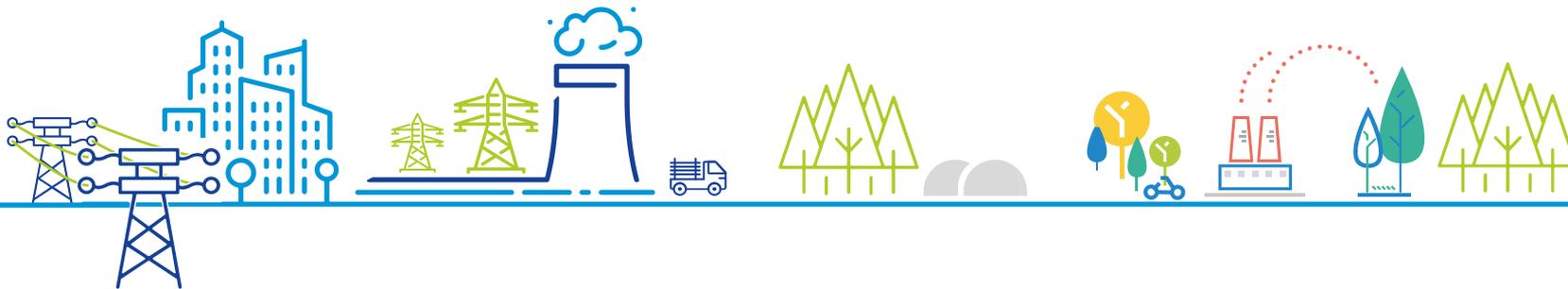
People

2

Insource
power
and gas
procurement

3

Deliver
targets



Areas of Focus

Future

1

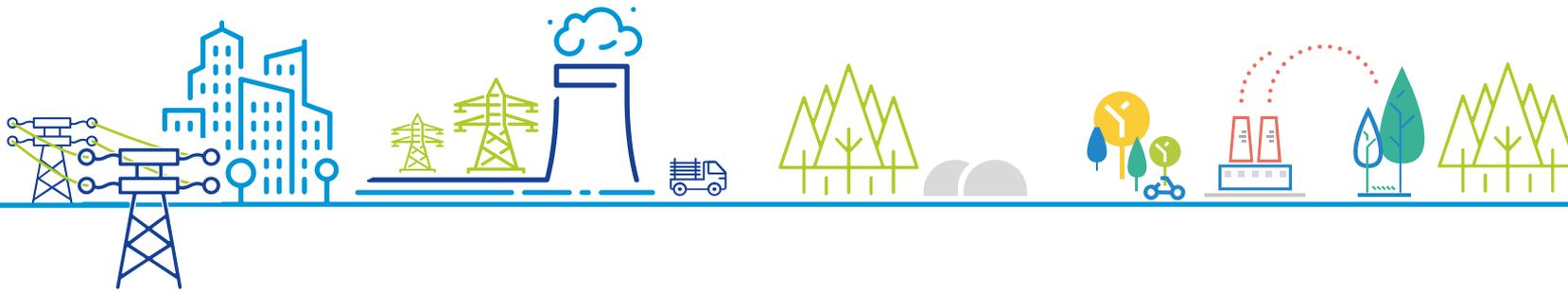
Gas and
renewables

2

Combining
expertise

3

Customer
propositions



A Growing Retail Annuity

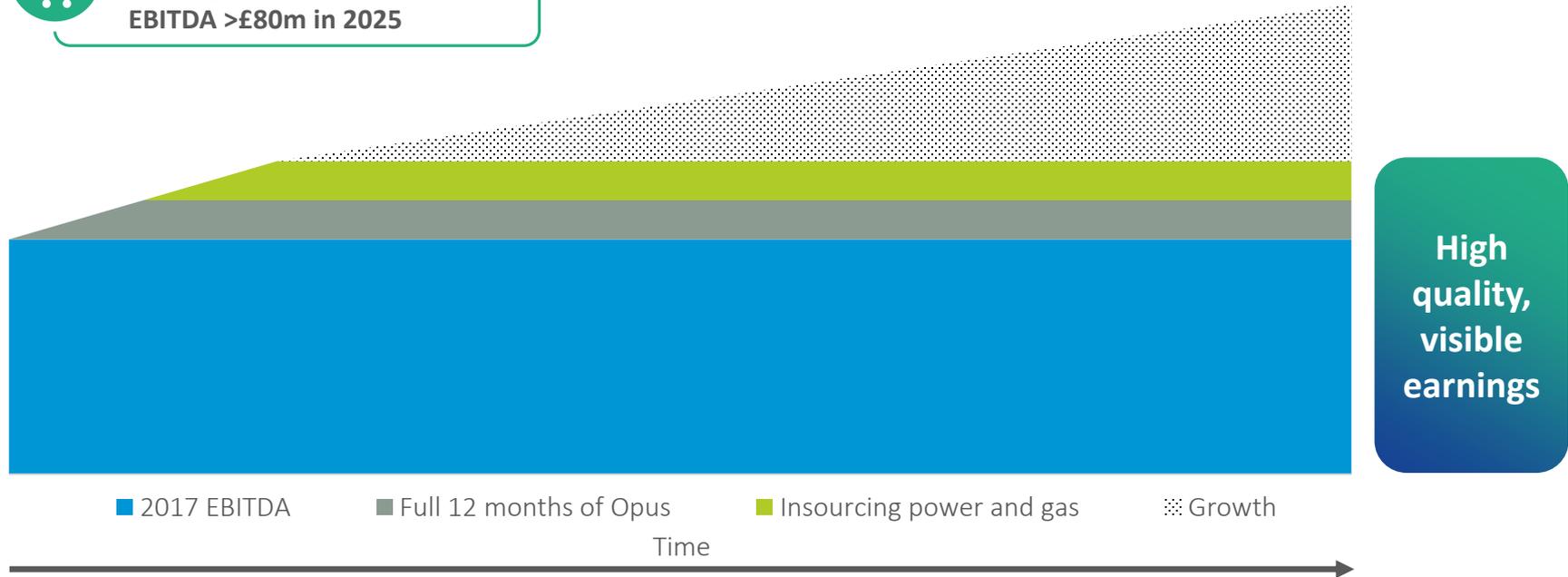
Margin predictability through customer retention



Retail

Leading UK energy supplier

EBITDA >£80m in 2025



Underpinned by

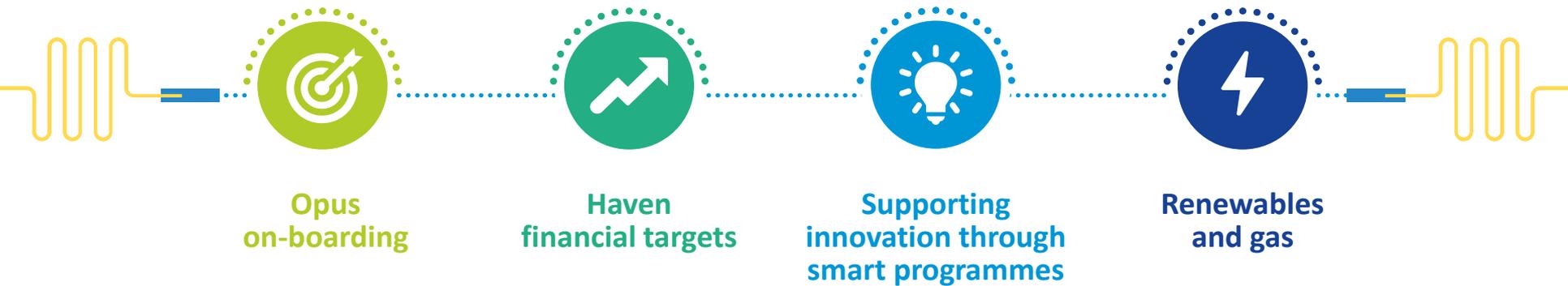
Industry leading customer retention levels

High cash conversion rates

Continued growth in SME and value adding services

Priorities for 2017

Supporting the strategy



Summary



A leading challenger

Continued strong growth in SME

Profitable I&C

A growing retail annuity



Innovation

Commercial agility

Lowering cost to serve

Customer proposition



Market differentiation

Focus on customers

Make renewables and sustainability simple

Inspire change in energy use

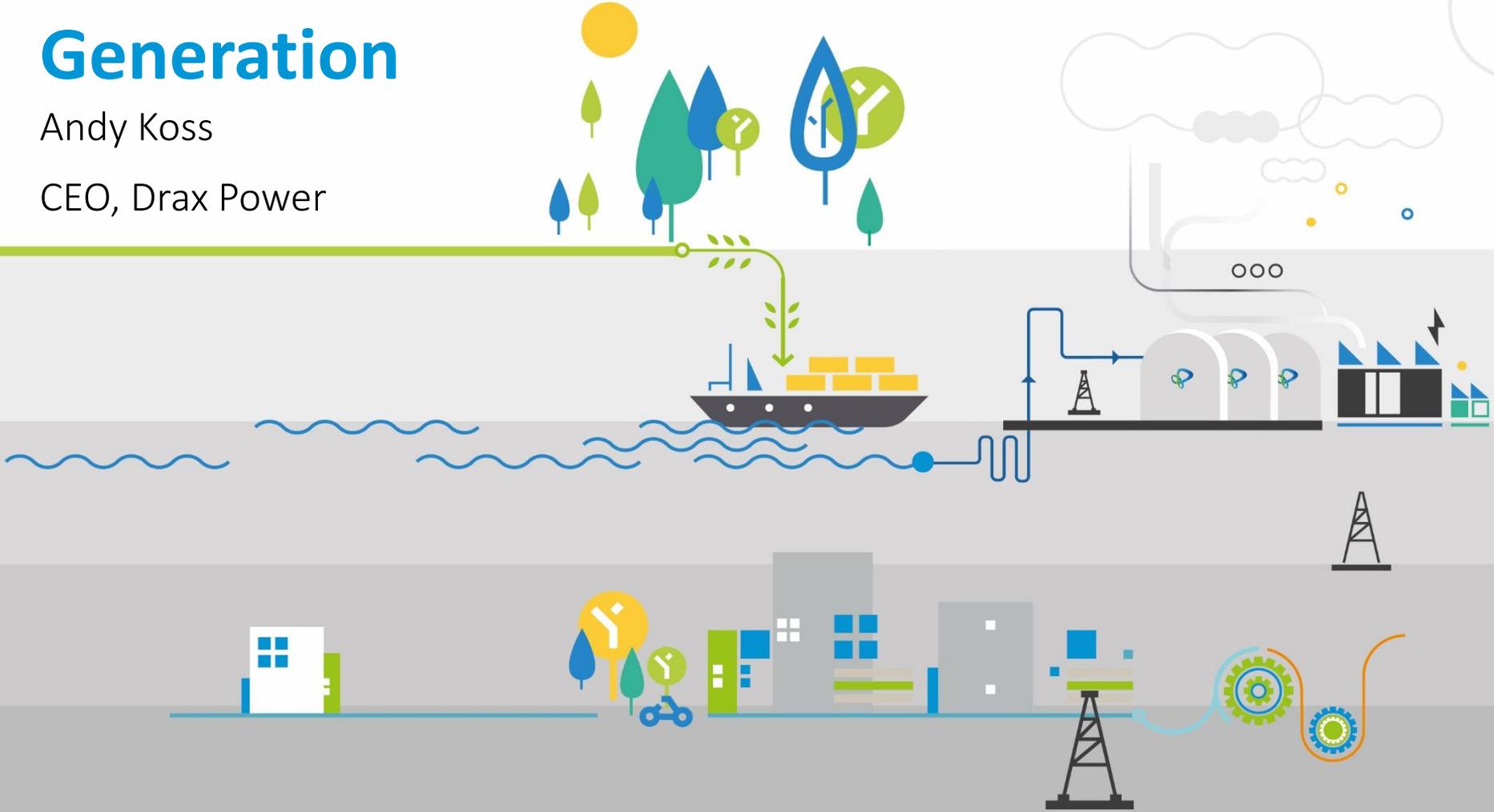




Generation

Andy Koss

CEO, Drax Power



Generation Strategy



Optimise returns from Drax Power Station



Expand business to support low carbon future and manage system stability



Explore all options to exploit strengths beyond 2027

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



Safety and Sustainability



Safety

- Strong safety performance
- Lowest injury rates on record

Total Recordable Injury Rate

0.10 YTD

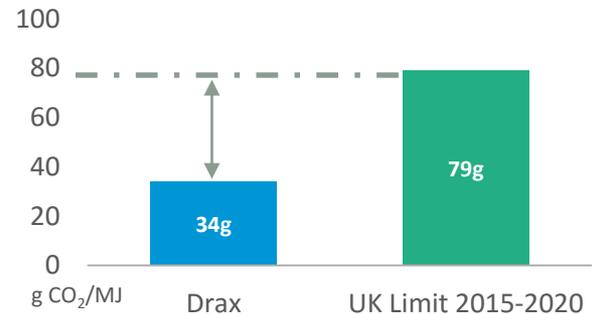
(2016: 0.13)



Sustainability

- Proven carbon abatement
- Well established sustainability policy
- Major reduction in NOx emissions
- Biomass generation and NOx abatement strategy
 - IED⁽¹⁾ compliant

Drax average GHG emissions



(1) Industrial Emissions Directive

Generation Business

Asset locations



Drax Power Station
4GW

Rapid response gas developments
1.2GW

Other infrastructure
12Mt biomass handling capacity⁽¹⁾
225 biomass rail wagons

(1) Dedicated facilities at four major UK ports – Hull, Immingham, Tyne and Liverpool

Optimise Returns

Biomass – low cost, large scale renewable generation

CfD unit operations

Stable and predictable revenues to 2027 – indexed to CPI

ROC unit operations

ROC revenues to 2027 – indexed to RPI

Secure biomass supply and cost visibility

Core fuel requirement secured

5-10 year fixed price-formula contracts in place

Rolling five year hedging strategy



Optimise Returns

Biomass – optimising operational performance



Availability

World class performance – 95% availability in Q1 2017



Investment

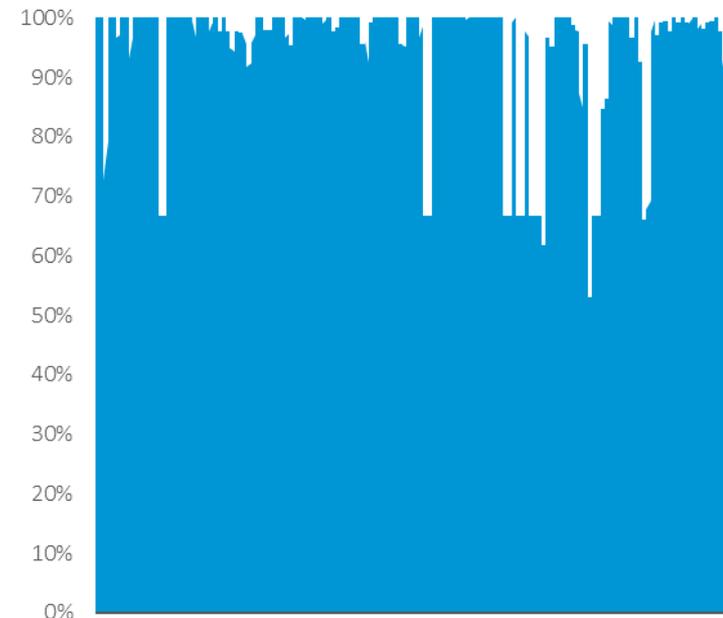
Prioritisation of biomass unit performance
Year-round high availability target
Focus on CfD unit outage in Q3 2017



Innovation

Lean management
Analytics to drive continuous improvement

Biomass availability January - May 2017



Optimise Returns

Coal – flexible capacity focused on system support market

Greater demand for system support services

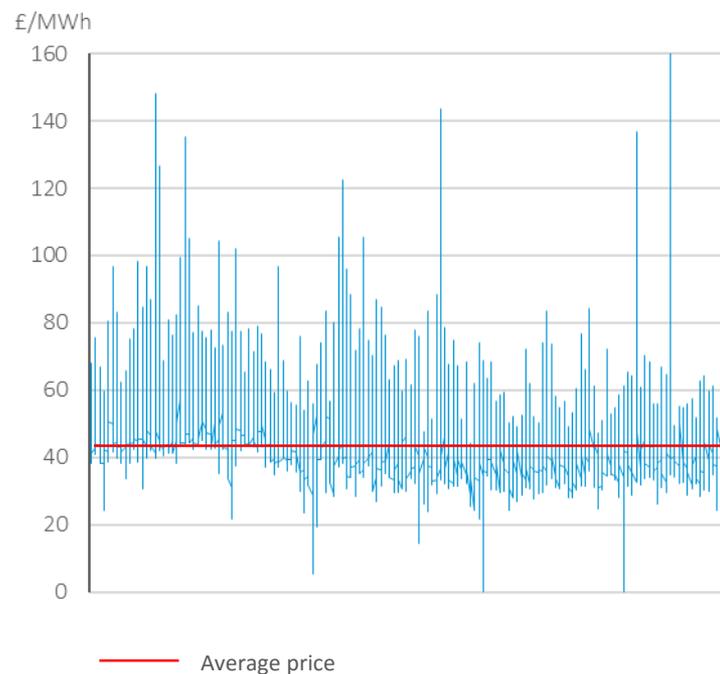
Flexible operations

- Dynamic mix of revenues depending on electricity price and system operator requirements
- Units positioned to be attractive to National Grid

Focus on capturing high value prompt prices at times of system scarcity



Half hourly market index prices January - May 2017



Optimise Returns

Coal – optimising operational performance



Availability

Limited summer operation, higher level winter operation
Secure capacity market revenues



Investment

Targeted investment, maintaining optionality
Flexibility and reliability rewarded over efficiency



Fuel diet

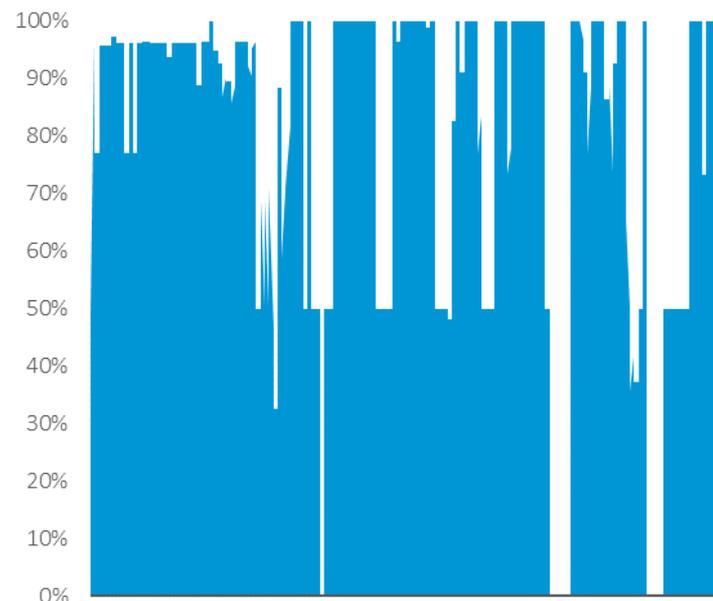
Broader diet targeted to enhance value



Innovation

Ash reclaim project from landfill

Coal availability January - May 2017



Optimise Returns

Meeting the system operability challenge

Growth of system support



- Increase in intermittent and embedded generation
- Closure of large thermal plant
- Renewal of inflexible nuclear

Key services



- Frequency, reserve and voltage

Markets



- Prompt, balancing and ancillary service markets

Opportunities

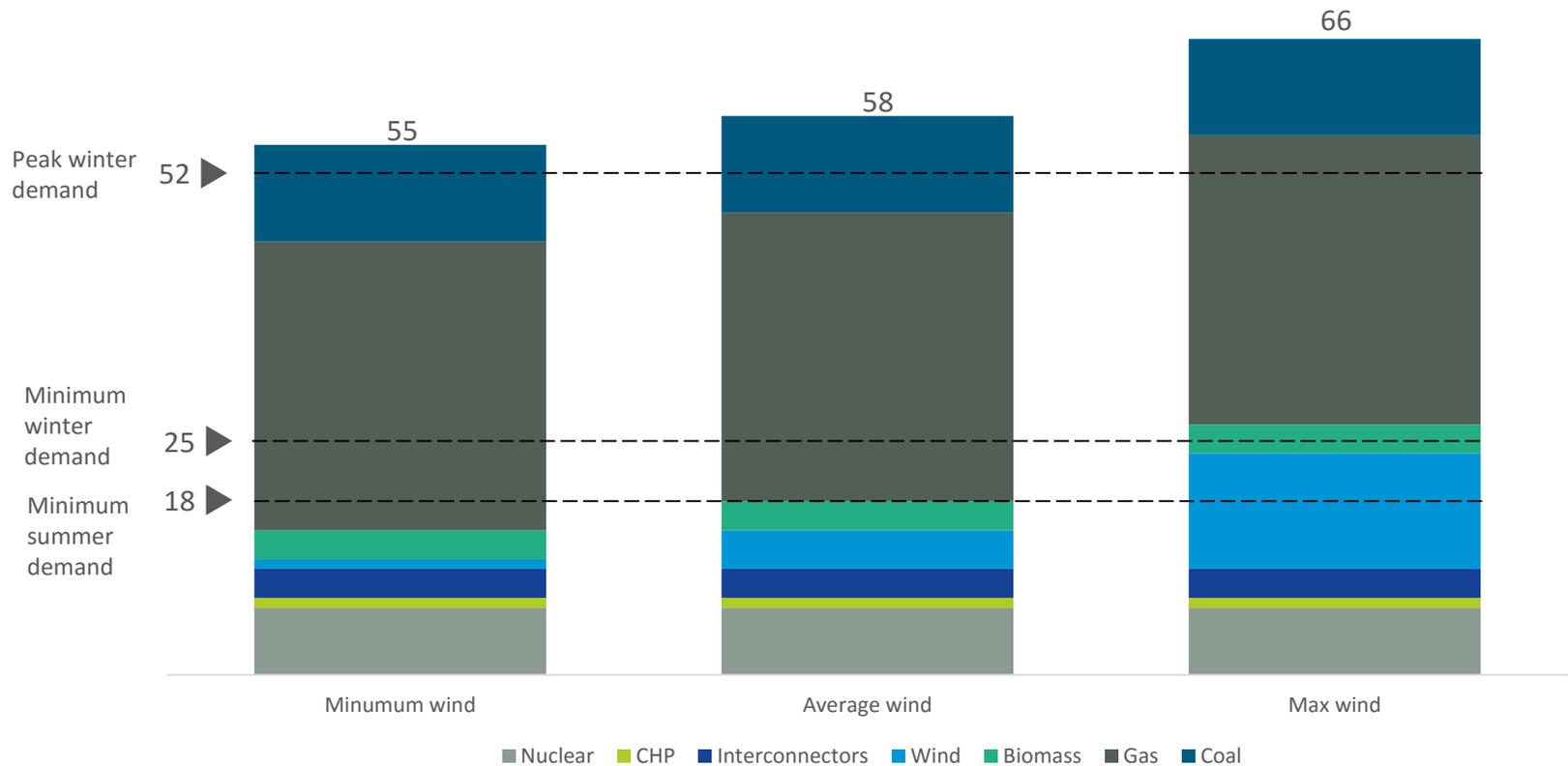


- Ability to provide headroom (turn up) on coal units and footroom (turn down) on biomass units
- All forms of frequency response available, including Enhanced Frequency Response
- Black Start capability
- All Drax units provide inertia to support system stability
- Voltage management

Optimise Returns

Opportunities from changing system demand requirements

UK generation – varying intermittent generation 2017 (GW)



Expansion Opportunity

Rapid response Open Cycle Gas Turbines (OCGT)

Why rapid response?

Response to system operability challenge

- Highly flexible
- Rapid delivery of full load from stand-still

Strong strategic fit

- Long-term revenue predictability from capacity market
- Builds on generation and trading core competencies

Proven technology

Aligned with government energy policy

- Important enabler for the move to a low carbon economy



Artist's impression of a Drax rapid response gas power station

Rapid Response Gas

Project update

Four sites with total capacity of c.1,200MW

Four x 299MW units

Two sites with all principal permits

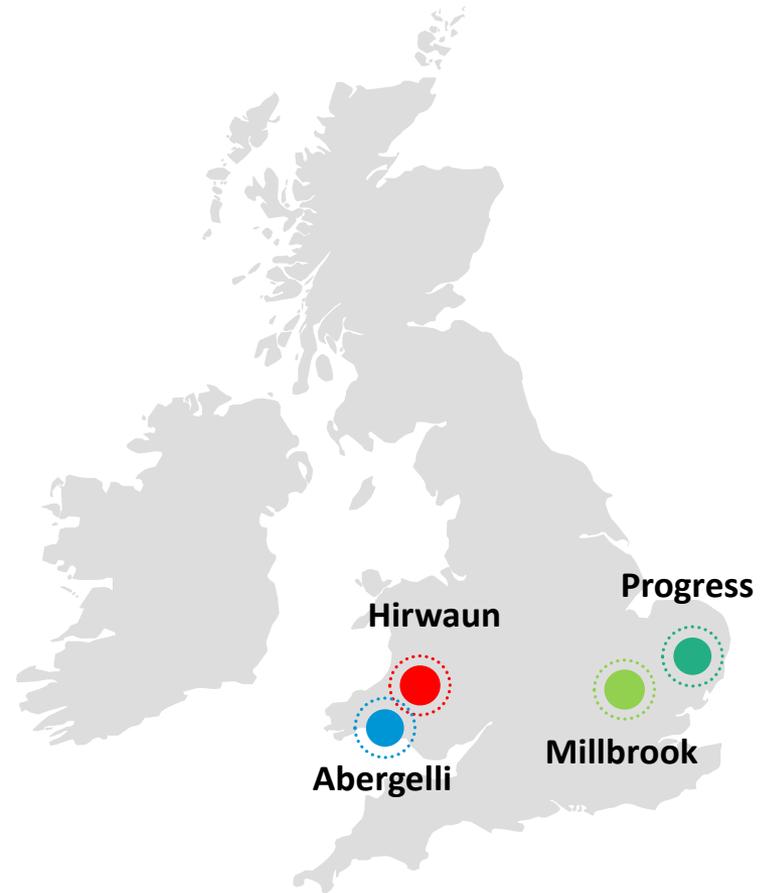
Progress Power and Hirwaun Power

- Bidding in 2017 auction for 15 year capacity contract
- Target operations three years post contract award

Two sites in permit process

Millbrook Power and Abergelli Power

- Targeting 2019 T-4 capacity market auction



PROGRESS
POWER

Hirwaun
power

 **Millbrook**
Power

Abergelli
power

Rapid Response Gas

Investment case



Option to develop 1.2GW of new OCGT gas

Investment decisions subject to
15 year capacity contract

Multiple revenue streams, with high visibility from capacity contract

Low capital and operating cost

Attractive return on capital

Diversification of generation asset base and location

Options Beyond 2027

Biomass – continuing profitable generation



Continued need for system support services

Biomass units can provide reliable, flexible low carbon generation



Pellet cost reduction

Specific team focused on pellet cost reduction

Comprehensive review of all aspects of pellet cost

Fibre, freight, logistics and unit efficiency

Research and Innovation

Fuel envelope and technologies



Development of options for future unit conversions

Trialling low cost solutions for further unit conversion

U4 trial extended through summer

Testing options for use of existing co-firing infrastructure

Options Beyond Coal

Creating options, supporting operational flexibility

New opportunities for a coal-free future

Conversion of remaining units to biomass

- Baseload or system support units with optimised biomass supply chain

Potential to repurpose assets to gas

- Exploit infrastructure and grid access



Good Underlying Growth

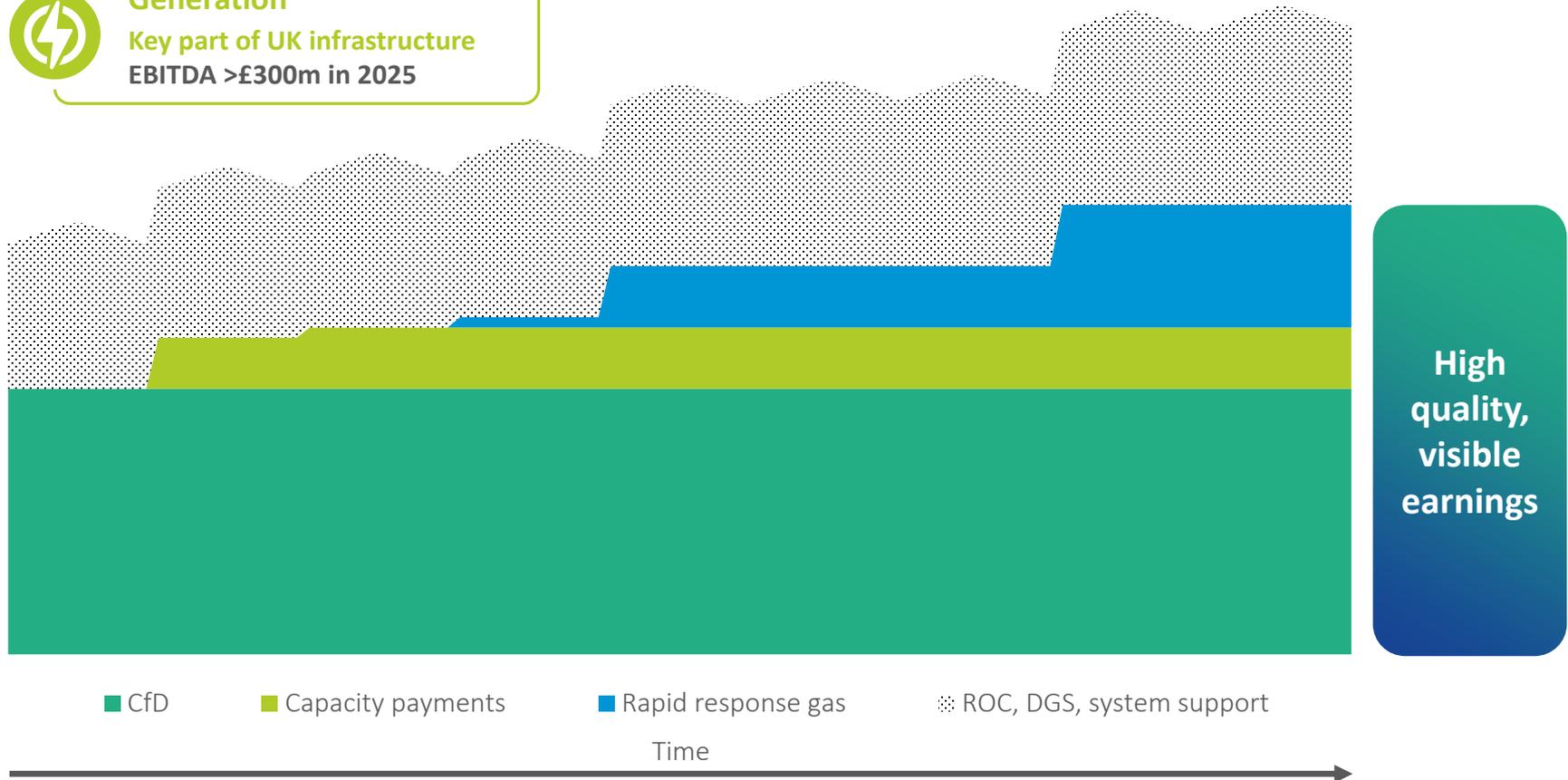
Increasing earnings visibility and important role in system support



Generation

Key part of UK infrastructure

EBITDA >£300m in 2025



Summary



Optimise returns from current business

- CfD – strong visible base
- RO – significant additional earnings
- Coal – upside from flexible operations
- System support
- Capacity payments



Low carbon future

- Further biomass generation
- Rapid response gas projects



Development options

- Optimisation of biomass supply chain and logistics
- Opportunities for a coal-free future

Questions



Biomass Supply

Pete Madden

President and CEO,
Drax Biomass



Pellet Supply Strategy

Advancing innovation and improvement within the pellet industry



Operational excellence

- Safe, reliable and flexible operations
- Low cost, good quality pellets



Innovation

- Continuous improvement, efficiencies and cost reduction
- Leverage benefits of multiple assets and location for operational efficiencies



Increase to at least 30% self-supply

- Identify opportunities to add capacity to portfolio
- Stable and growing earnings profile
- Attractive long-term market

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



Safe and Sustainable

Committed to high safety and sustainability standards



Safety

Improving performance



Strong sustainability credentials

SFI® Certified Sourcing

SFI®, PEFC, FSC® Chain of Custody

Sustainable Biomass Programme certification



Further commitment to sustainability

Independent audit by third party

Working with forest owners

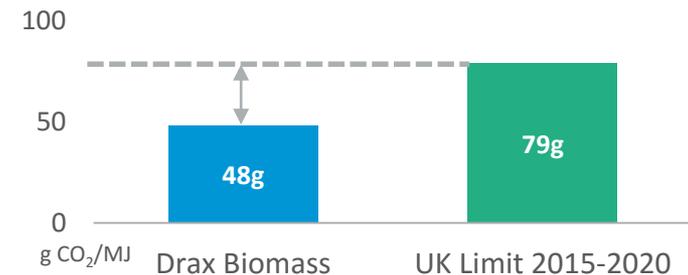
- Tree farmers programme
- Promote sustainable forest management

Total Recordable Injury Rate

0.47YTD

(2016: 1.11)

Drax Biomass average GHG emissions



US Forestry

Leveraging abundant resource of fibre and infrastructure in US Southeast

US has >750 million acres of forest land

>35% of the landmass and 25% of global industrial wood production

Pellet industry less than 3% of annual harvest

Forest growing annually since 1950s

Protected by statutes, regulation and certification

Best practices in forest management and sustainability

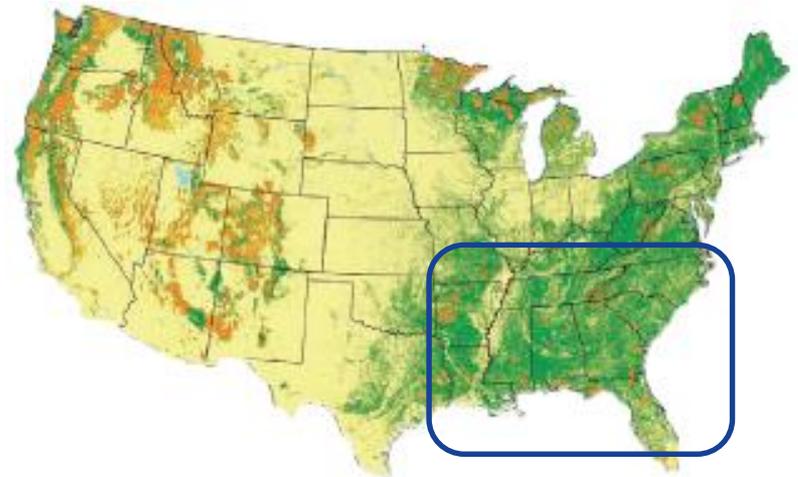
US Southeast – key fibre basket

Vast resources of sustainable forestry

Inventories increased >90% since 1950

Well established commercial forestry industry and infrastructure

Structural decline in incumbent users of low value fibre
– Opportunity for pellet producers



Stable commercial and regulatory environment

Operations Located in US Southeast

1.5 million tonnes of capacity



Morehouse BioEnergy
Bastrop, LA, 525kt pa



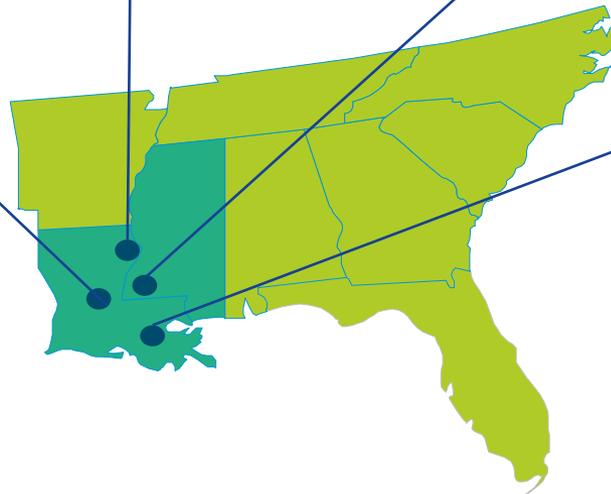
Amite BioEnergy
Gloster, MS, 525kt pa



LaSalle BioEnergy
LaSalle, LA, 450kt pa
(from 2018)

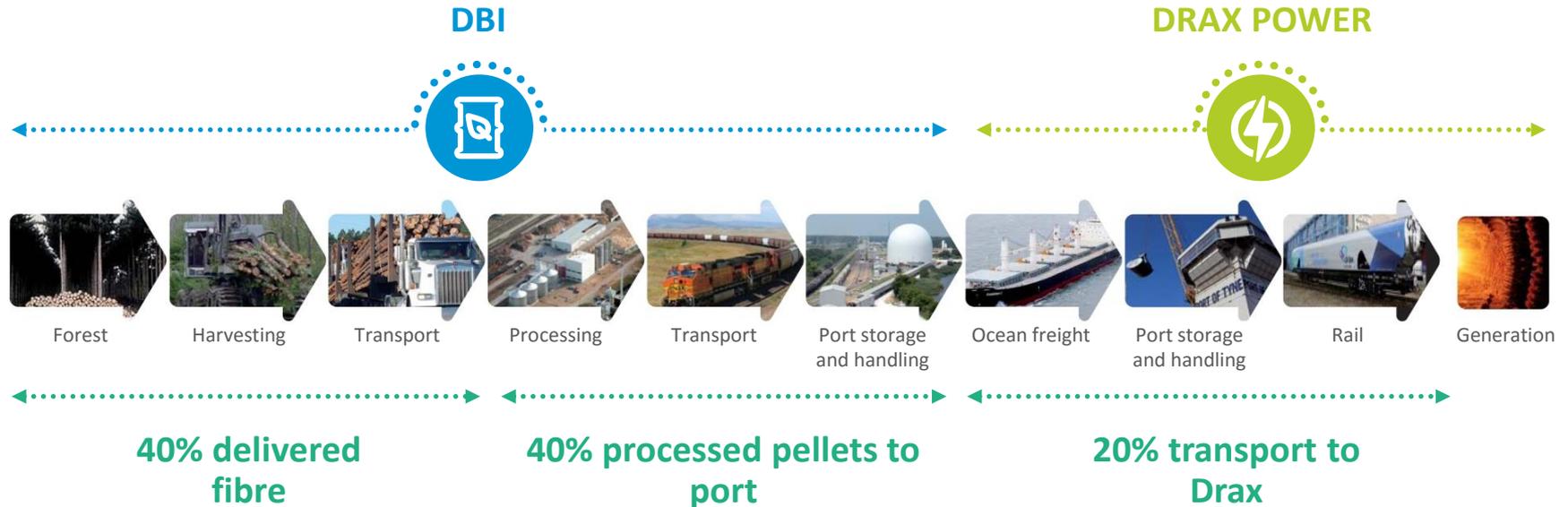


Baton Rouge Transit
Port Allen, LA



Pellet Plant Economics

Components of process cost, opportunities for savings



Focus on operational improvements and cost reduction

Innovation

Incremental capacity

Operational and locational synergies

Increased utilisation of lower cost fibres

Innovation

Case study: pellet dies

Pellet dies

Used to press fibre
at high temperature
into pellets

Significant wear and tear

12 dies per plant

c.\$10k per die

300-400 hours
of operation

Outage required
for replacement

New pellet dies reduce costs

Increased availability

800-1,000 hours
of operation

Lighter, easier
installation

Operational efficiency

Technology
applicable across all
existing assets



Innovation and Continuous Improvement

Opportunities identified to increase capacity and reduce pellet costs



Investments at Amite and Morehouse

Additional truck dumps

- Increase capacity for lower cost residuals

Install dry shavings system

- Increase capacity c.75k tonnes per plant

Total capex c.£10 million

- Payback within two years



Benefits

Increase utilisation of lower cost fibre

- Original – 80% pulpwood, 20% residuals
- Future – 60% pulpwood, 40% residuals/shavings

Reduce processing cost



LaSalle BioEnergy

Attractively priced, good quality asset

Attractively priced

1/3 of new build cost

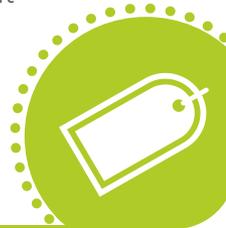
- Price reflects lack of long-term offtake agreement

Shorter lead time to operation vs. new build

- Commission Q1 2018 following upgrades, build output through 2018

Significant contribution to portfolio

- 450kt capacity



Good quality asset

Proven technology

- c.130k pellets produced in 2016

c.£20 million investment for additional upgrades

- Railroad infrastructure and additional log/chip storage
- Single line electrical system and IT infrastructure
- Safety, environmental policy and training
- Spare parts and equipment gap analysis



LaSalle BioEnergy

Strong fibre basket – low fibre demand, high supply



Region with 70% forest coverage

70 million metric tonnes of standing pine timber in 50 mile radius⁽¹⁾



Strong market for low value fibre

> Two million metric tonnes decline in pulpwood fibre demand

- Closure of two pulp & paper facilities
- LaSalle requirement
- One million mt of fibre
- 450kt of pellets



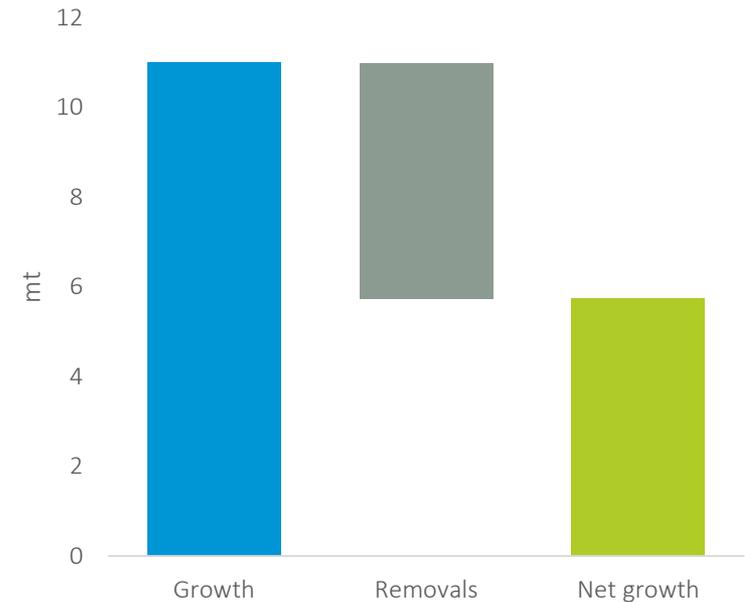
Sustain local forest-based economy

Supports long-term investment in forest

- Healthier forests, stronger yield

(1) USDA Forest Service

LaSalle fibre basket growth and extraction 2014⁽¹⁾



LaSalle Bioenergy

Leverage benefits of multiple assets and locations for operational efficiencies

All sites within 200 mile radius

Operational efficiencies

Common plant and joint strategic spares

- Maximise reliability, minimise capital outlay

Flexibility through outage cycle

Human capital

Shared logistics to Baton Rouge

Rail and road

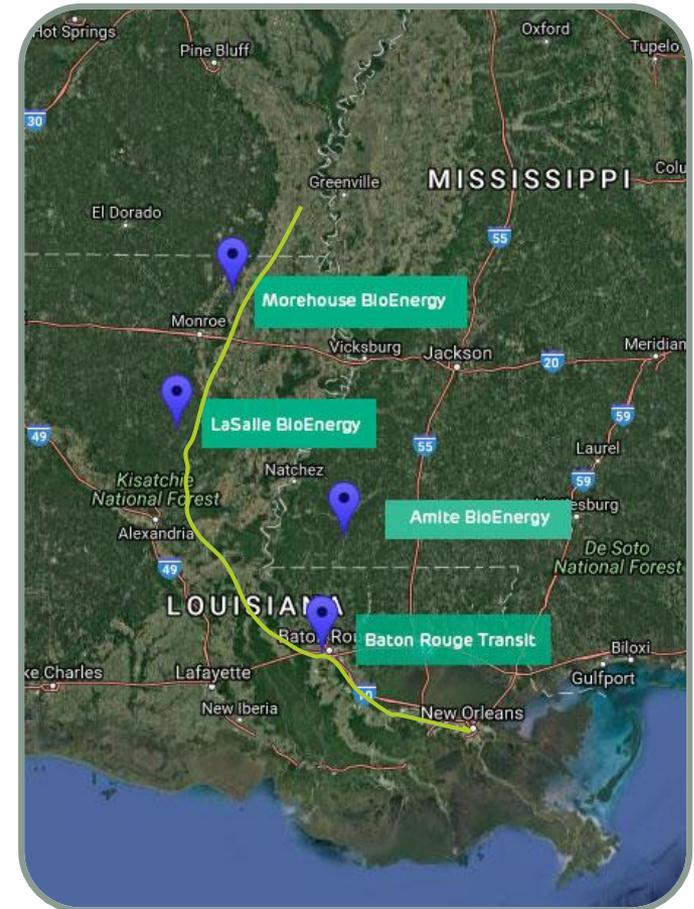
Increased port throughput

Complementary fibre sourcing

Optimisation of supply between plants

Further benefits associated with increased capacity

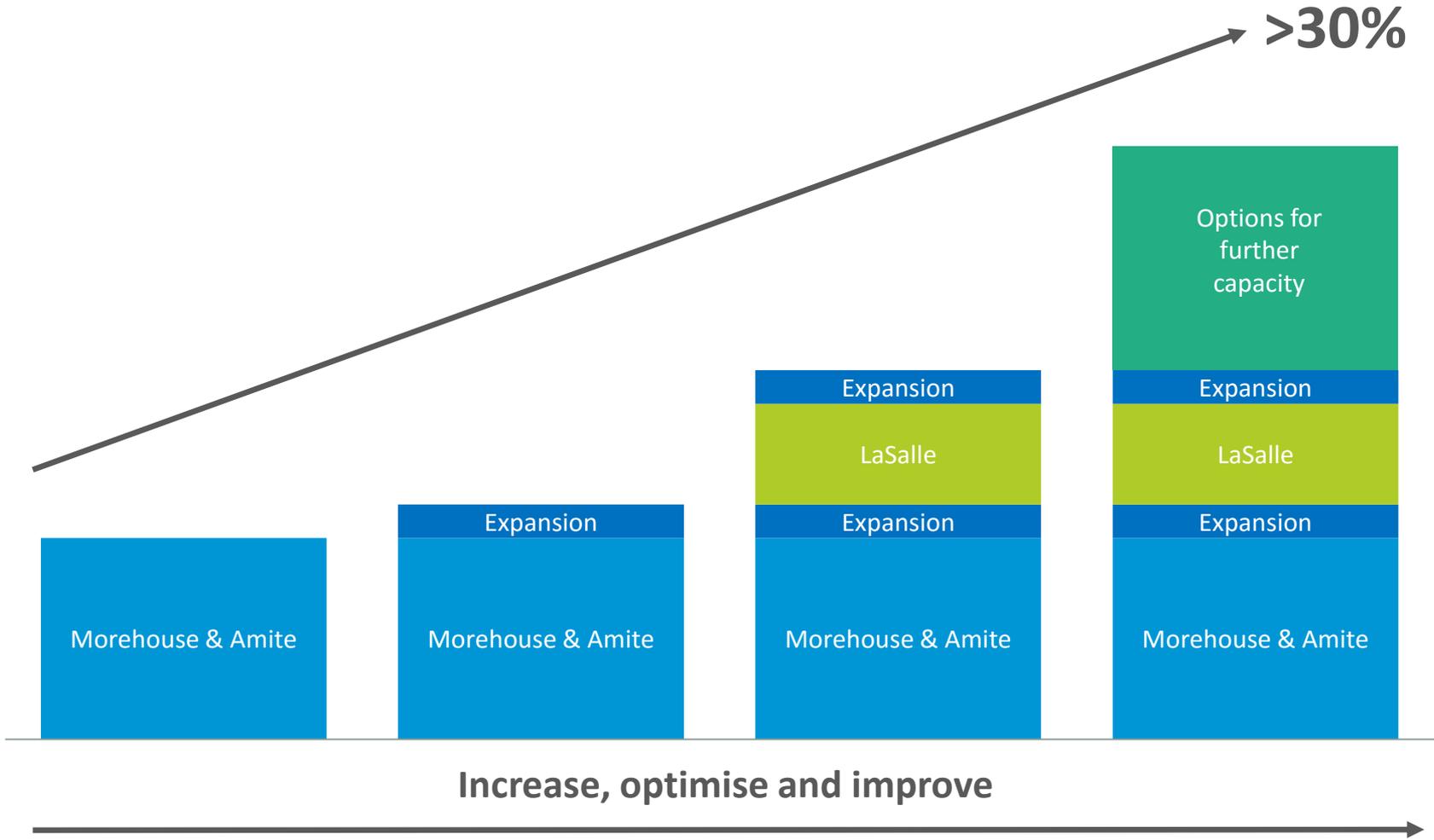
Target at least 30% self-supply



— Rail line – Morehouse – LaSalle – Baton Rouge

Target at Least 30% Self-supply

Identify opportunities to add capacity to portfolio



Good Underlying Growth

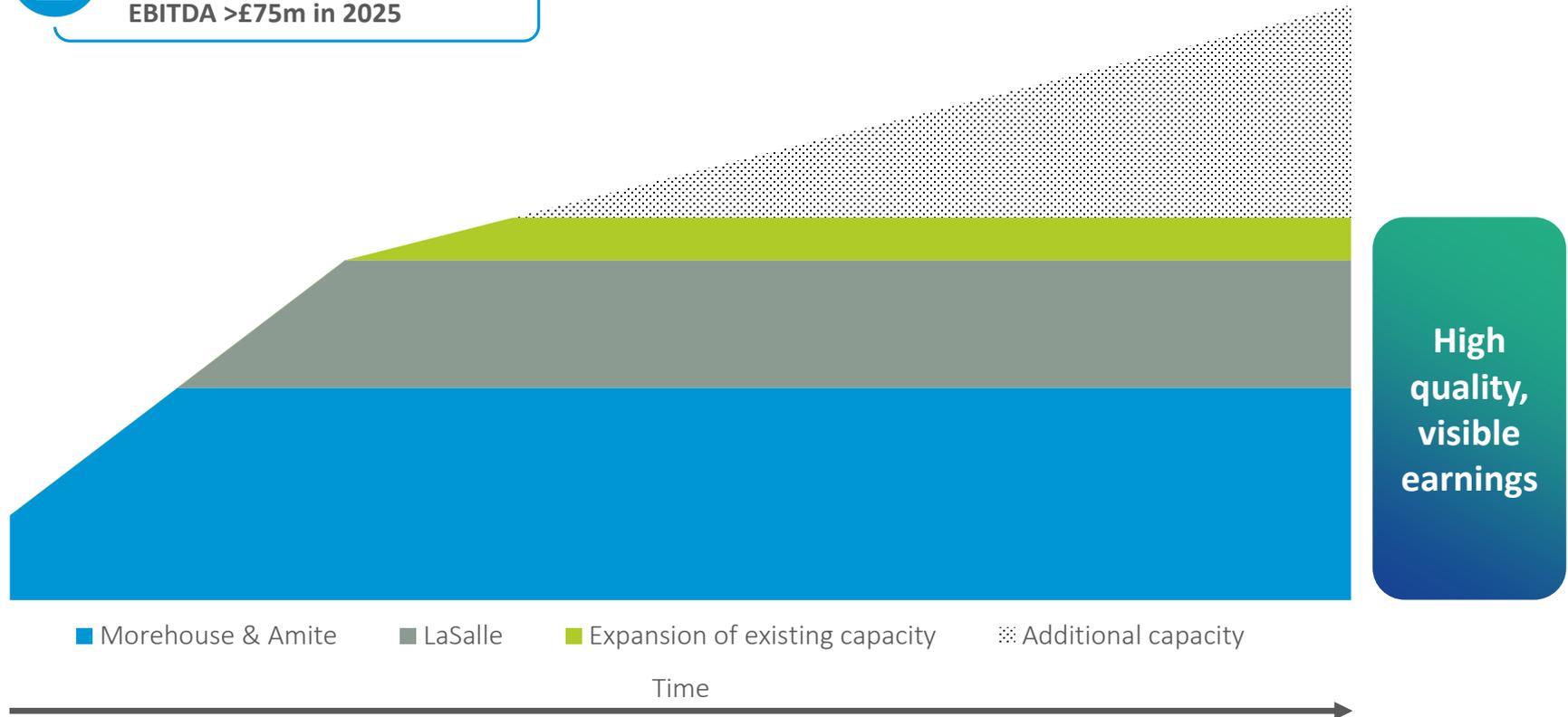
Increasingly profitable and growing biomass supply business



Biomass

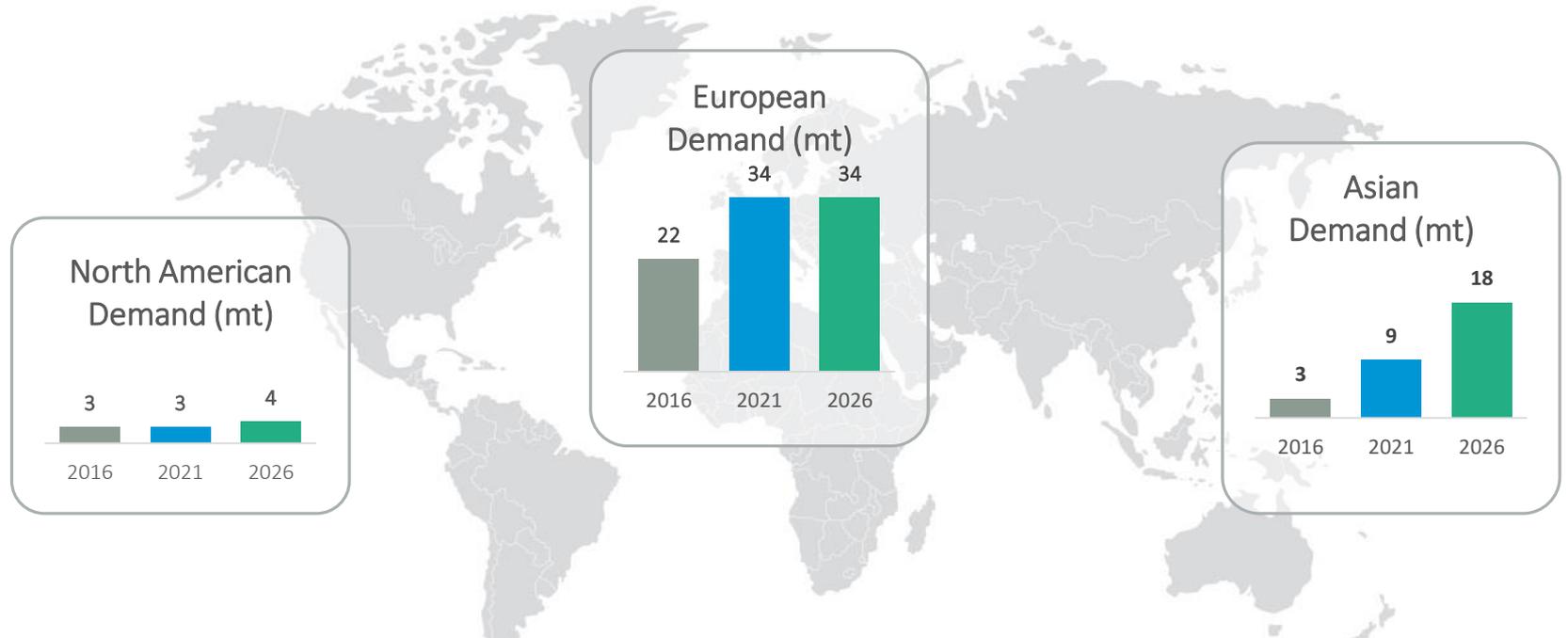
Target at least 30% self-supply

EBITDA >£75m in 2025



Global Pellet Market Outlook

Development of stable global growth of industrial and heating markets



Global industrial and heating market demand in 2026 >55mt
7% CAGR

Focus on biomass self-supply capability

Explore opportunities in global pellet supply



(1) Hawkins Wright – The Outlook for Wood Pellets (2017)

Summary

Excellence in operations

Safe, reliable, flexible operations



Innovation

Opportunities for operational and fibre cost savings

Strong locational benefits

Maximising fibre basket resources

Good progress towards self-supply strategy

Incremental capacity improvements

LaSalle engineering programme in place, commissioning and ramping through 2018

Strong long-term outlook for global pellet market

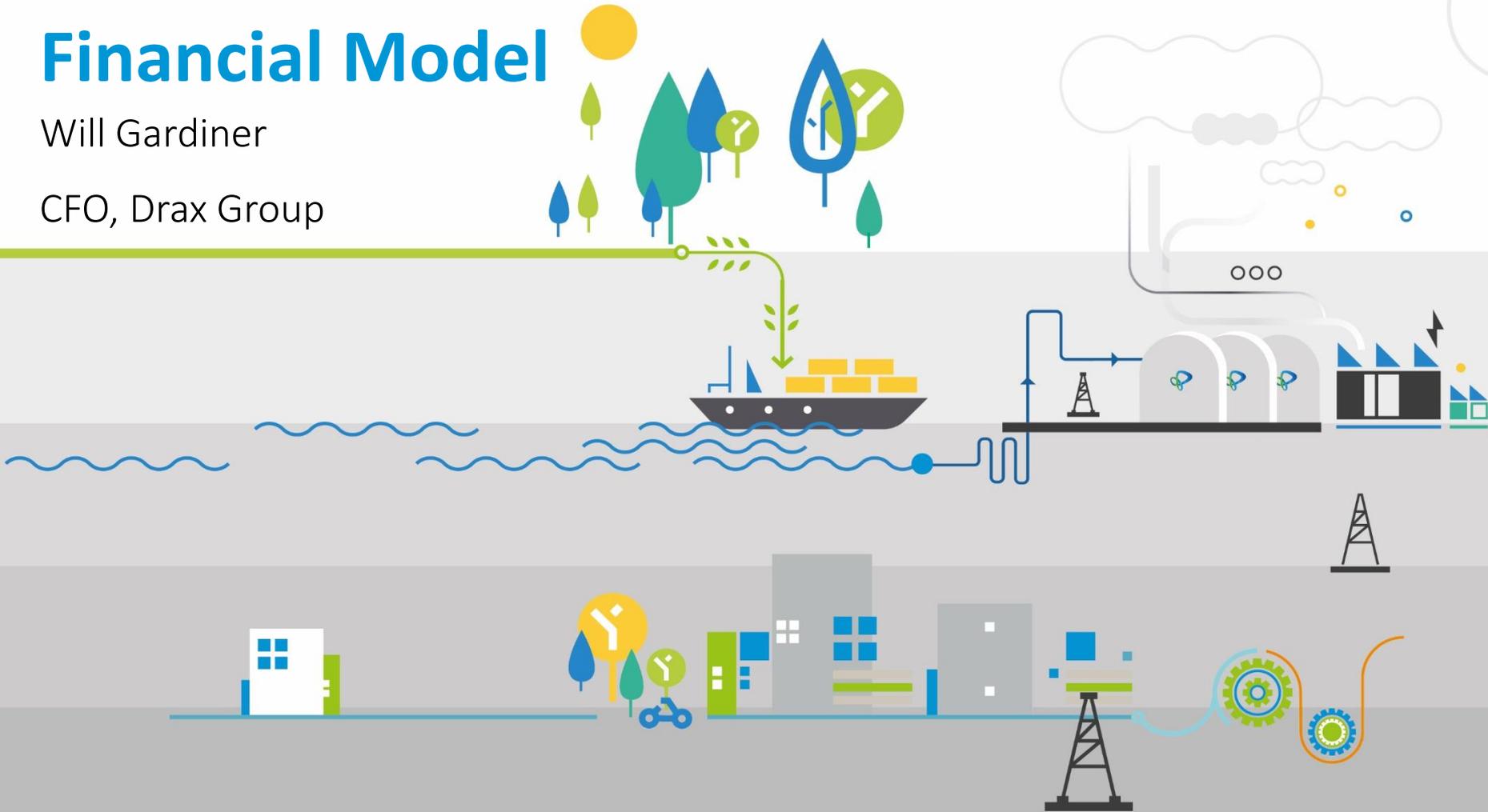
Self-supply or third party opportunities



Financial Model

Will Gardiner

CFO, Drax Group



Financial Model

Highlights

-  **High degree of earnings visibility, reducing commodity exposure**
 - Renewable support – CfD and RO contracts to 2027 with long-term fuel and FX hedging programme
 - Capacity payments
 - Retail annuity
 - Predictable pellet supply earnings
-  **Good underlying growth in core business**
 - Profitable and growing retail businesses
 - Important role in system support services
 - Increasingly profitable and growing biomass supply business
-  **Opportunities for further long-term growth**
 - Retail platform for growth
 - Acquisition of pellet plants
 - Development of rapid response gas, subject to capacity market
 - Long-term options for generation
-  **Strong financial position**
 - Strong balance sheet with low leverage
 - Strong cash conversion – stable maintenance capex and working capital efficiency opportunities
-  **Clear capital allocation plan**
 - Maintain credit rating
 - Investment in core business
 - Sustainable and growing dividend
 - Return surplus capital to shareholders

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

High Degree of Earnings Visibility

Reducing commodity exposure

Renewable support mechanisms

One biomass unit supported by CfD

- Guaranteed strike price for electricity
- £107/MWh in 2017⁽¹⁾
- Extends to 2027 – indexed to CPI

Two biomass units supported by ROCs

- Increasing premium on power price
- Units earn c.£45/MWh⁽²⁾ plus power price
- Extends to 2027 – indexed to RPI

Increase in non-power market revenues

Capacity payments, 2017-2021

- c.£80m contracted

System support

A growing retail annuity

Stable margins from growing long-term biomass supply

(1) Strike price in 2012 £100/MWh – indexed to CPI

(2) CP-16 price – full buy out, excluding recycle fee

High Degree of Earnings Visibility

Risk management supports earnings visibility



Biomass generation revenues actively hedged

CfD unit hedged via CfD reference price

Forward power sales concentrated on ROC units

- Largely sold over 2017/18

Coal units – focused on short-term markets

- Upside from power market tightness



Biomass cost actively hedged

5-10 year fixed price-formula contracts in place

Benefit of self-supply capability

Rolling five year hedging strategy



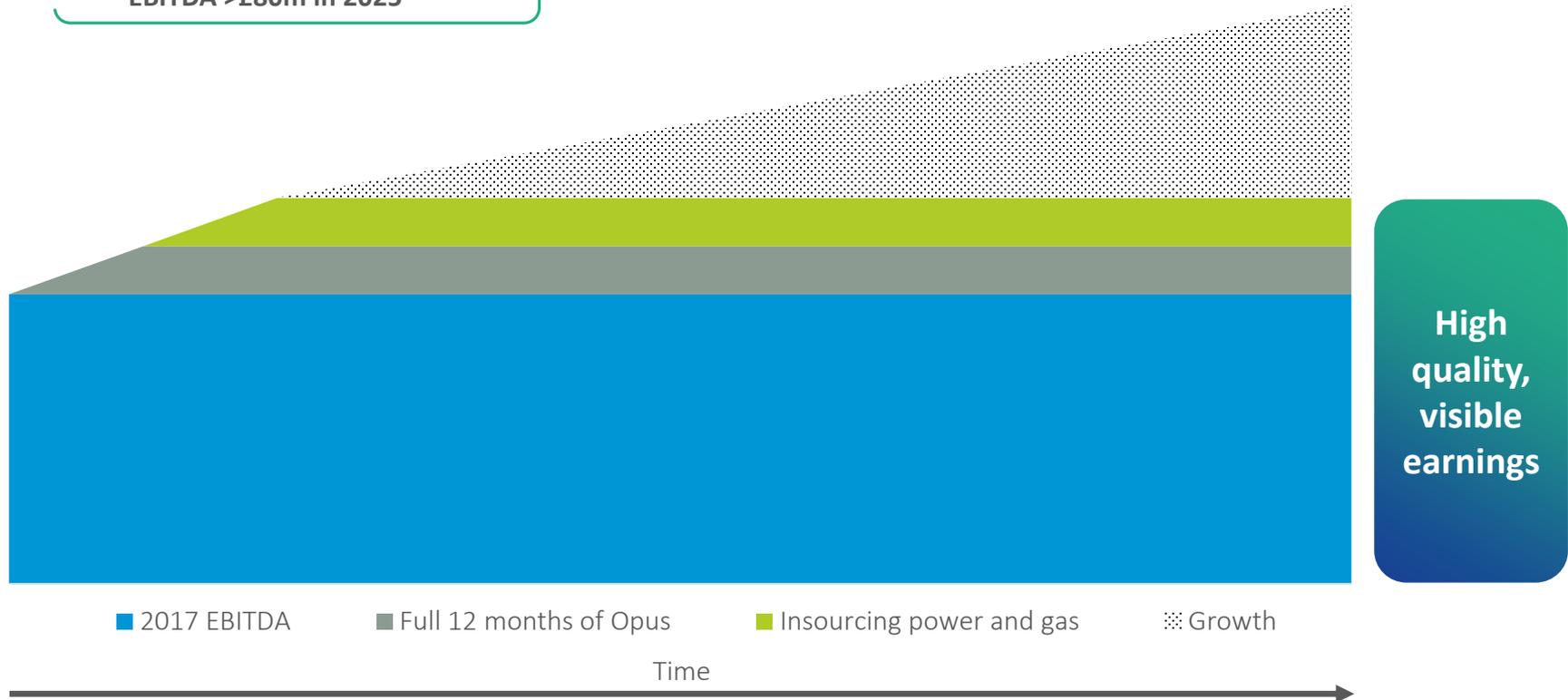
Good Underlying Growth

Profitable and growing retail business



Retail

Leading UK energy supplier
EBITDA >£80m in 2025



Good Underlying Growth

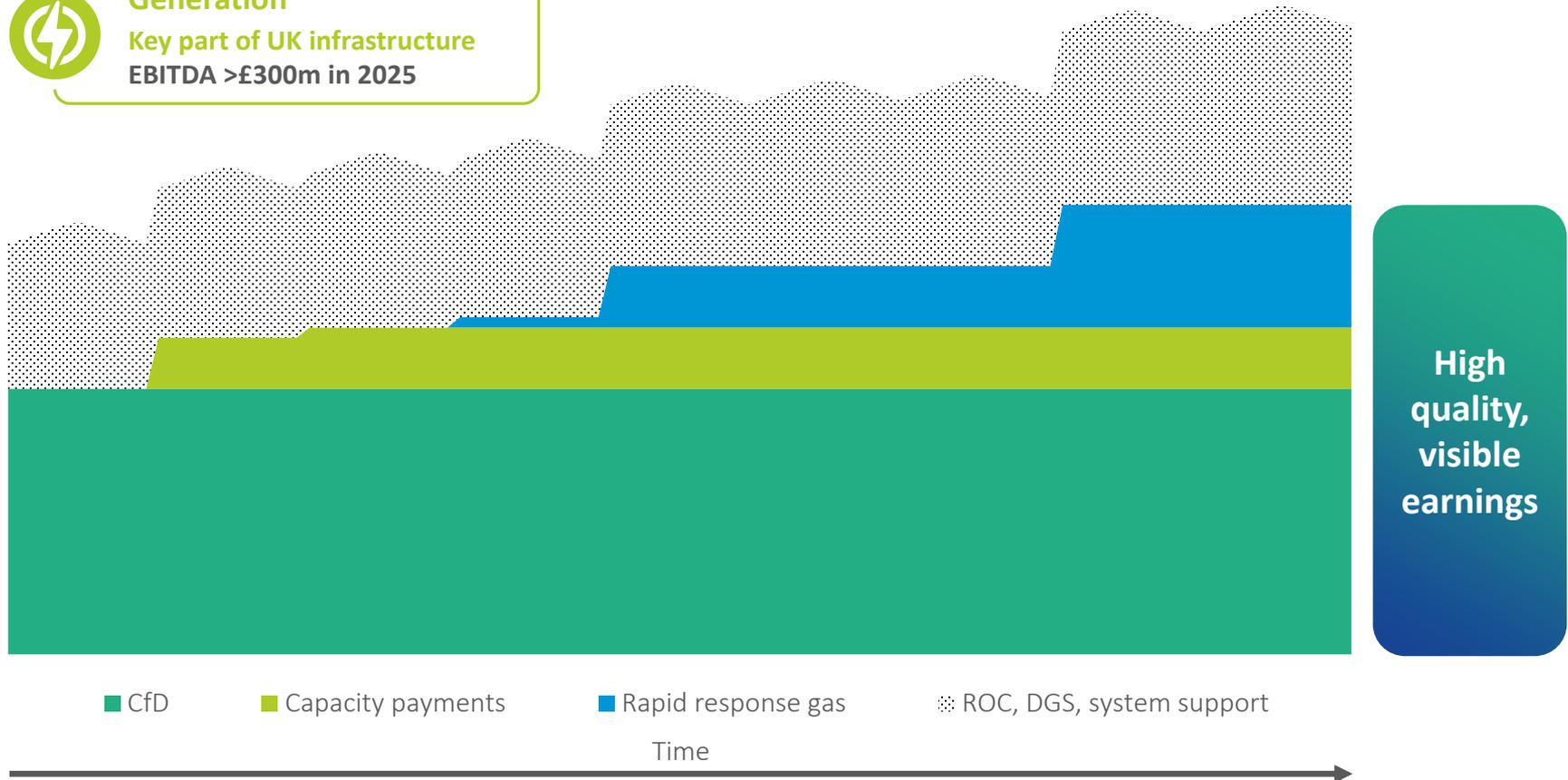
Increasing earnings visibility and important role in system support



Generation

Key part of UK infrastructure

EBITDA >£300m in 2025



Good Underlying Growth

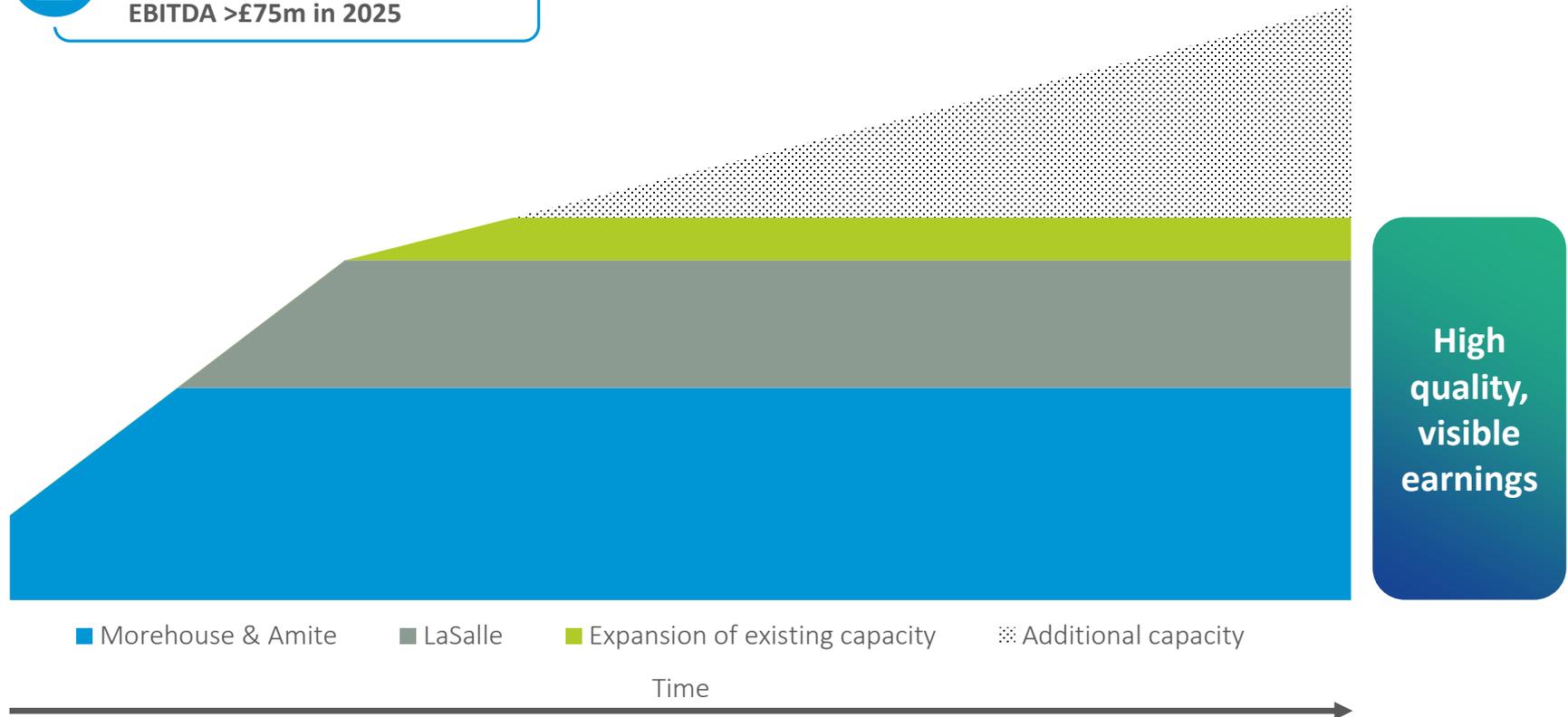
Increasingly profitable and growing biomass supply business



Biomass

Target at least 30% self-supply

EBITDA >£75m in 2025



Opportunities for Further Long-term Growth

Value accretive long-term investment opportunities



Retail

Strengthen annuity
by expanding
product offering

Platforms offer
market expansion
opportunities



Generation

Further biomass
generation

Continuing trials of
low cost conversion
solutions

Supply chain
optimisation and
lower cost biomass

Potential to
repurpose coal



Pellet Supply

Attractive
growing market



Opportunities to
create value
across the supply
chain

Strong Financial Position

Cash flow



Operating cash flow

Visible and growing operating cash flow



Capital investment

Average maintenance capex c.£50m

Further investment in value accretive projects

- Rapid response gas – £320-£400m
- Additional pellet plant acquisitions



Working capital

Remain focused on working capital management

Strong Financial Position

Prudent financial policies



Refinancing complete

Modest levels of debt

- Robust to low points in business cycle
- 2017 target c.2x net debt/EBITDA

Lower cost of financing

Commitment credit rating

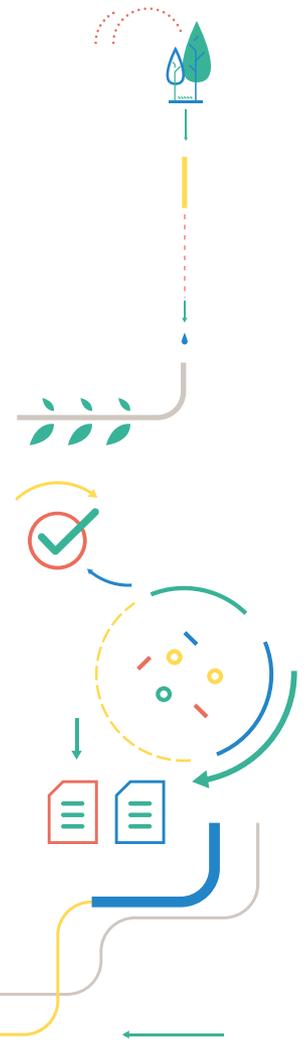
- Supportive of trading strategy
- Investment grade rating on super-senior RCF



Strong cash flow generation from stable and predictable earnings base

Opportunities for further cash flow benefits

£550m high yield bonds
£350m revolving credit facility



Capital Allocation

Policy designed to support strategy



Maintain credit rating

Investment in core business

Pay a sustainable and growing dividend

Return surplus capital to shareholders

Dividend Policy

Drax expects to pay a growing dividend consistent with maintaining its credit rating and investing in its business

Drax expects to recommend a dividend of £50m with regards to the 2017 financial year. The Board is confident that this dividend is sustainable and expects it to grow from this level as the implementation of the strategy generates an increasing proportion of stable earnings and cash flow. In determining the rate of growth in dividends the Board will take account of future investment opportunities and the less predictable cash flows from the Group's commodity-based businesses

If there is a build-up of capital in excess of the Group's investment needs the Board will consider the most appropriate mechanism to return this to shareholders

Summary

Strategy being delivered

Improving quality and stability of earnings, reducing commodity exposure

- Renewable and contract based revenues
- Retail and pellet supply becoming businesses of scale

Attractive opportunities from core assets

Value accretive investment opportunities support long-term earnings visibility

Financial model in place to support strategy

Refinancing complete

Dividend policy confirmed

2017 – in line with expectation



Questions



Drax Model Summary

Supporting earnings visibility and growth

Strategic Objective		Higher quality diversified and visible earnings, management of commodity exposure Targeted long-term growth opportunities			
		Current	Drax 2025		Other Opportunities
Markets	Retail	Opus and Haven	Opus and Haven	>£80m*	Products, services, markets
	Generation	1 baseload CfD unit Capacity payments	1 baseload CfD unit Capacity payments Rapid response gas		Further biomass generation
		2 x ROC units System support services	2 x ROC units System support services	>£300m*	Supply chain optimisation Repurposed coal
		3 x coal units	3 x coal unit opportunity		R&I / new technologies
Biomass supply	c.15% self-supply	>30% self-supply target	>£75m*	New markets Further optimisation	

Strategy underpinned by strong financial structure and capital allocation plan

Capital allocation

- Maintain credit rating
- Investment in core business
- Sustainable and growing dividend
- Investment in value or distribution to shareholders

Strong balance sheet

- £550m bonds (fixed and floating)
- £350m RCF

Balance sheet objectives

- 2017 target c.2x net debt/EBITDA
- Maintain credit rating

Capital investment

- Core - £50m pa
- Gas - £320-£400m
- Additional pellet plant acquisitions – new build benchmark c.\$120m for 500kt

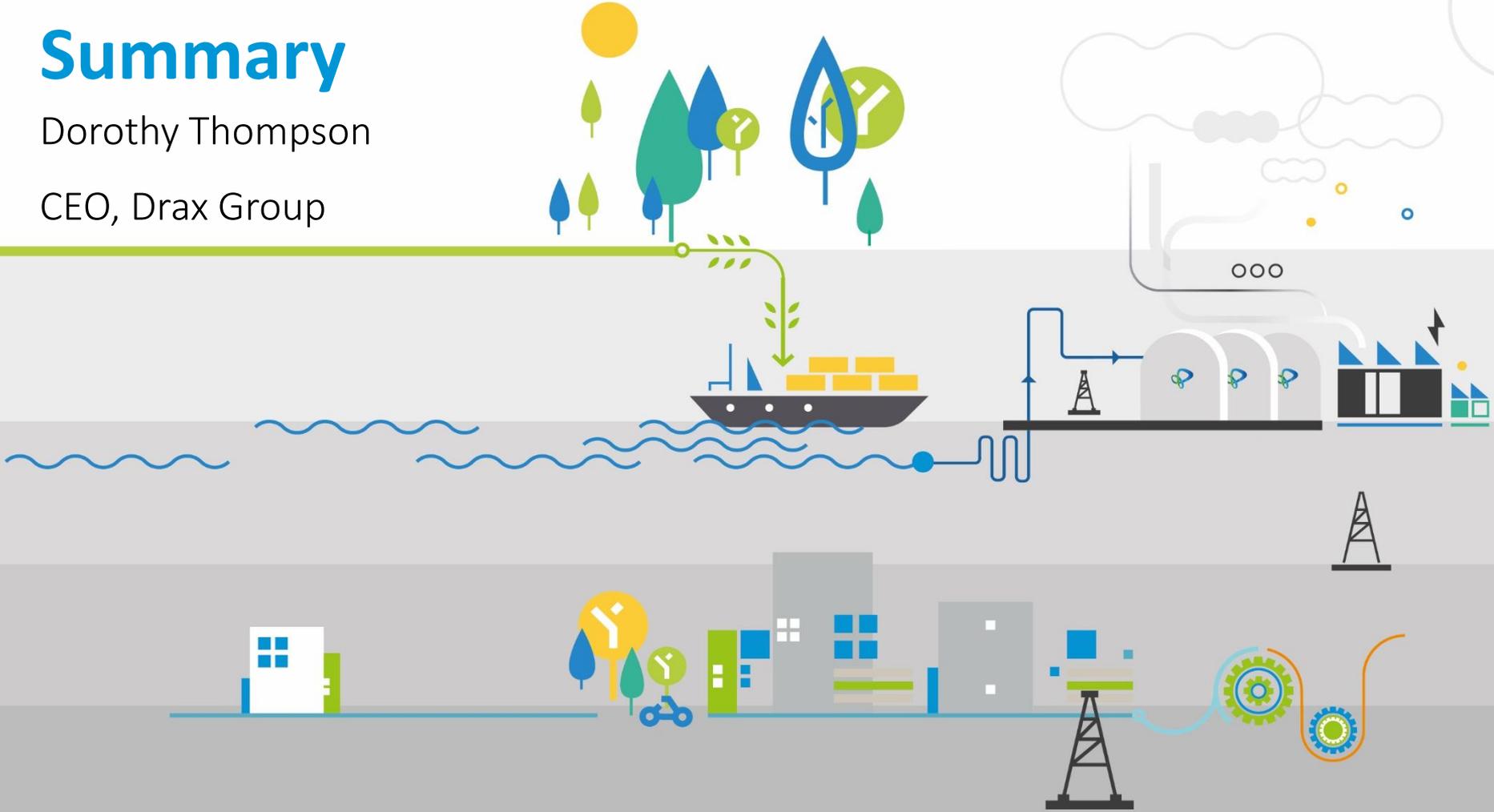
Dividend policy

- £50m in 2017, expected to grow over time
- Affordable and sustainable
- Consider most appropriate mechanism to return surplus capital to shareholders



Summary

Dorothy Thompson
CEO, Drax Group



Drax 2025

High quality growing earnings across all areas of operation

Generation

Key part of UK infrastructure

EBITDA >£300m⁽¹⁾



Biomass supply

At least 30% self-supply

EBITDA >£75m⁽¹⁾



Retail

Leading UK energy supplier

EBITDA >£80m⁽¹⁾



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

(1) Excludes Central Costs



Drax Group

Capital Markets Day

15 June 2017

