

Half Year Results

6 Months Ended 30 June 2017

19 July 2017



Agenda

Operations and business review

Dorothy Thompson, CEO

Financial review

Will Gardiner, CFO

Delivering the strategy

Dorothy Thompson, CEO

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

Group

Strong Group operational performance

Strategy progressing well

Financial model confirmed

Generation

68% of generation renewable

Reducing commodity market dependency

Supporting system stability through flexibility

Retail

Opus Energy – performing well

Haven Power – EBITDA breakeven achieved

Biomass supply

Increased output

Good quality, lower cost pellets

EBITDA

£121m

Underlying Earnings Per Share

2.2p/share

Total Dividend

4.9p/share (£20m)

Safe and Sustainable Operations

Safety

Strong Group safety performance

- Lowest injury rates on record

Biomass sustainability

Proven carbon abatement⁽¹⁾

- 68% saving versus gas in 2016
- Well established sustainability policy
 - Strong governance and audit process

Total Recordable Injury Rate

0.08

(H1 2016: 0.17)

Carbon Life Cycle Emissions

34g CO₂-eq/MJ⁽²⁾

UK limit 2015-2020 79g CO₂-eq/MJ

Retail – Established Challenger in B2B Markets

Retail

Increasing profits and customer volumes

- Acquisition of Opus Energy

Good operational performance

Opus Energy

Integration progressing well

- Insourcing of power and gas
- Consolidation of Northampton operations

Delivering growth in SME⁽¹⁾ market

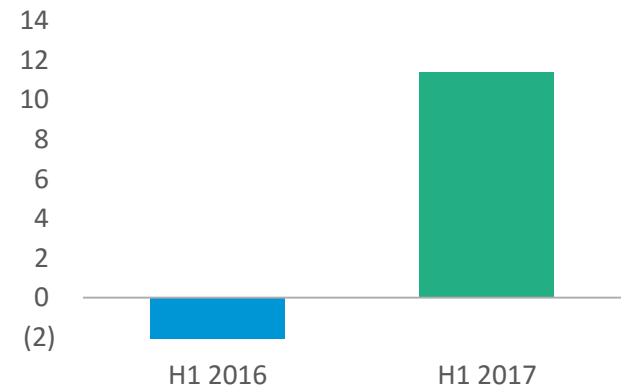
Haven Power

EBITDA breakeven achieved

Target growth in SME mid-market

Continued investment in next generation IT systems

Retail EBITDA (£m)



Biomass Generation – Lowest Cost, Large Scale Renewable

Strong operational performance

Good availability

Supply chain working well

Focus on major planned unit outage

Fourth unit trial – return to coal for winter 2017

Longer term viability

Important role to play as low carbon system support

– National Grid – scenarios⁽¹⁾ with continuing biomass

Continue to identify options for pellet cost reduction

Biomass
Generation

7.3TWh

(H1 2016: 7.5TWh)

Total
Generation

10.7TWh

(H1 2016: 10.9TWh)

Biomass Generation

68% of total generation

(H1 2016: 69%)

Coal Generation – Flexible Capacity, System Support

Adapted to market conditions

Focus on system support services

- Dynamic mix of revenues dependent on system requirements
 - Growing proportion of non-commodity earnings
- Ancillary Services revenues £21m (H1 2016: £20m)
- Capacity payments secured for 2017-2021, c.£80m

Availability

- Limited summer operations, higher winter availability

Investment

- Targeted to maintain optionality
- Flexibility rewarded over efficiency

Fuel diet

- Broader diet targeted to enhance value

Coal Generation

3.4TWh

(H1 2016: 3.4TWh)

Total Generation

10.7TWh

(H1 2016: 10.9TWh)

Coal Generation

32% of total generation

(H1 2016: 31%)

Drax Biomass – a Major Supplier of Wood Pellets

Improving operational performance

Higher levels of production

Continuing to provide supply chain flexibility

Focus on cost reduction and innovation

Increasing self-supply capability

Targeting at least 30% of generation requirement

Low cost expansion opportunity on existing plant

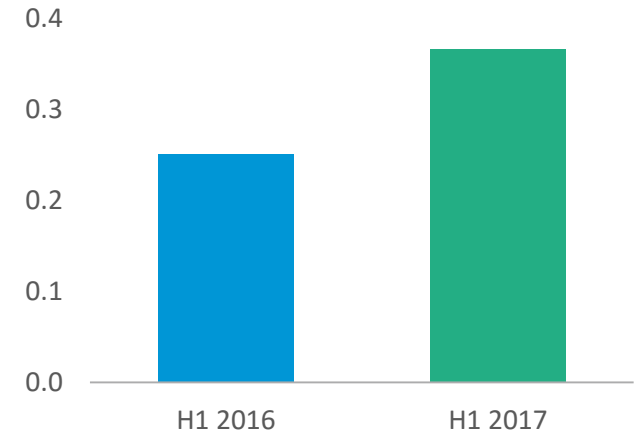
- Increase capacity c.150k tonnes
- Greater utilisation of lower cost residues

Acquisition of LaSalle Bioenergy

- \$35m, plus \$26m upgrades
- Commissioning Q1 2018, increase output through 2018

Evaluating opportunities for pellet plant acquisitions

Pellets produced (mt)



Generation Projects and Research & Innovation

Rapid response gas

Four separate sites with total capacity of 1.2GW

- Two sites with principal permits
 - Bidding in next auction for 15 year capacity contract
- Two sites in permitting – progressing well
 - Targeting 2023/24 delivery period

New opportunities for a coal-free future

Conversion of additional units to biomass

- Baseload or system support units with optimised biomass supply chain
- Continue to identify options for conversion cost reduction

Potential to repurpose coal assets to gas

- R&I⁽¹⁾ team developing early stage proposal for conversion of coal to gas
 - Exploit infrastructure and grid access
- Investment eligible for 15 year capacity contract



Financial Review



Financial Highlights

Will Gardiner – CFO

EBITDA

£121m

(H1 2016: £70m)

Net cash from operating activities

£197m

(H1 2016: £151m)

Underlying EPS⁽¹⁾

2.2p

(H1 2016: 4.2p)

Net Debt⁽²⁾

£372m

(December 2016: £93m)

Interim Dividend

4.9p (£20m)

(H1 2016 : 2.1p, £8m)

Progressing delivery of strategy

Improving profitability and earnings quality

Financial structures in place to support strategy

Strong cost and cash management

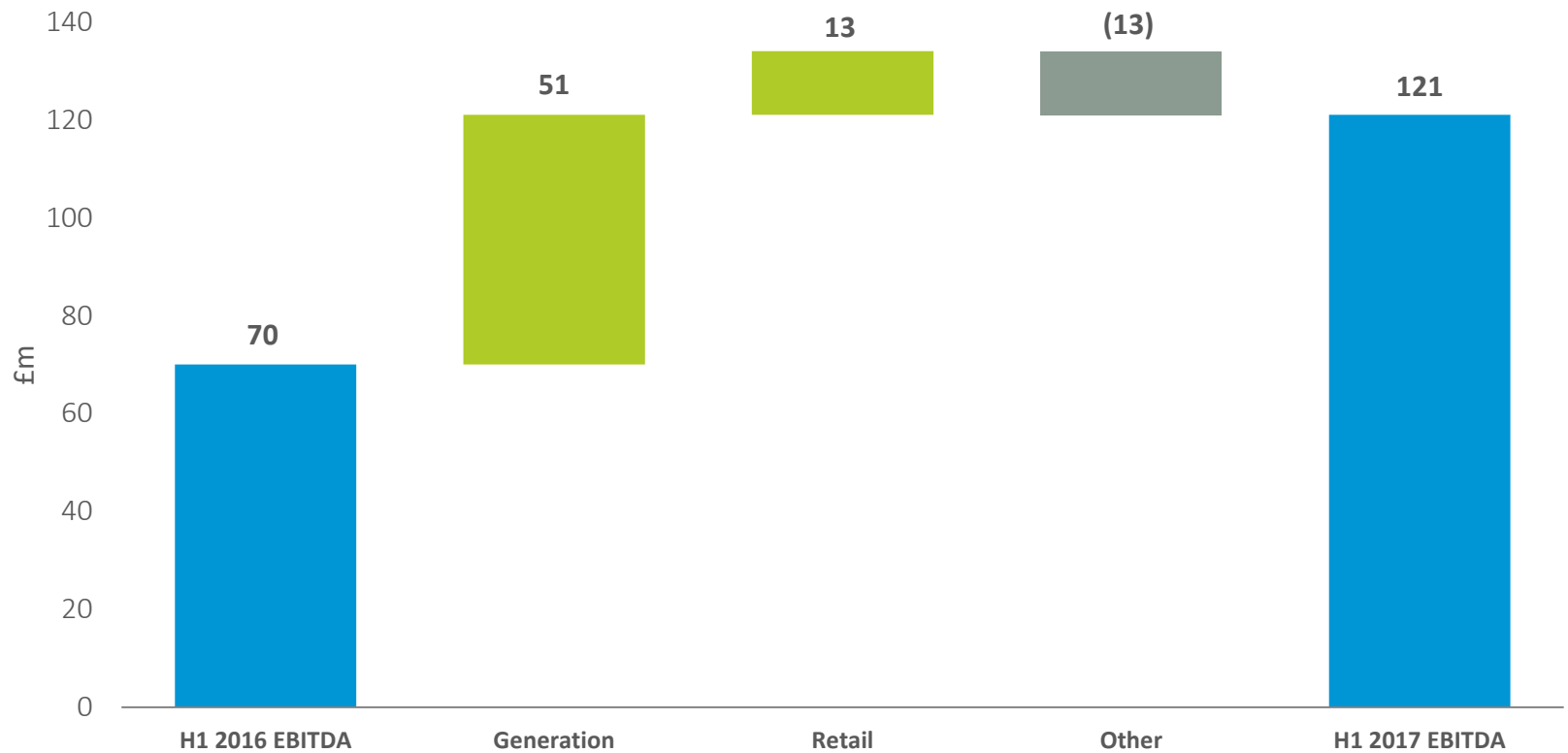


Financial Review

Income statement	H1 2017 £m	H1 2016 £m
Revenue	1,800	1,487
EBITDA	121	70
Depreciation and amortisation	(90)	(52)
EBIT	31	18
Net finance (cost) / credit ⁽¹⁾	(19)	3
Tax charge	(3)	(4)
Underlying earnings⁽²⁾	9	17

Cash and balance sheet	H1 2017 £m	H1 2016 £m
Net cash from operating activities	197	151
Net debt	(372)	(85)

EBITDA Bridge H1 2016 – H1 2017



Net Cash Flow

In £m	H1 2017	H1 2016
EBITDA	121	70
Working capital / other	114	88
Debt service	(29)	(9)
Tax	(9)	2
Net cash from operating activities	197	151
Capital expenditure	(56)	(48)
Acquisition of LaSalle Bioenergy	(27)	-
Net refinancing	239	-
Acquisition of Opus Energy and rapid response gas	(380)	-
Other	(4)	(2)
Net cash flow	(31)	101

Financial Structures in Place to Support Growth

Strong cash generation

Refinancing completed

£550m high yield bonds

- £350m fixed, £200m floating
- Five year term

£350m Revolving Credit Facility (RCF)

- Investment grade rating on super-senior RCF

Commitment to credit rating

- Supportive of trading strategy
- Robust to low points in business cycle

Targeting c.2x net debt to EBITDA at year end



Capital Allocation

Capital allocation plan confirmed

Maintain credit rating

Investment in core business

- Maintenance and development opportunities – pellet plants, biomass conversions, rapid response gas and repurposing coal

Sustainable and growing dividend

- Expect to recommend 2017 full year dividend of £50m (interim of £20m)

Return surplus capital to shareholders



Financial Summary

H1 2017

Progressing delivery of strategy

Improving profitability and earnings quality

Financial structures in place to support strategy

Strong cost and cash management

2017

Expectations unchanged

Outlook

Increasing earnings visibility

Good underlying growth in core business

Opportunities for additional long-term growth

Strong financial model

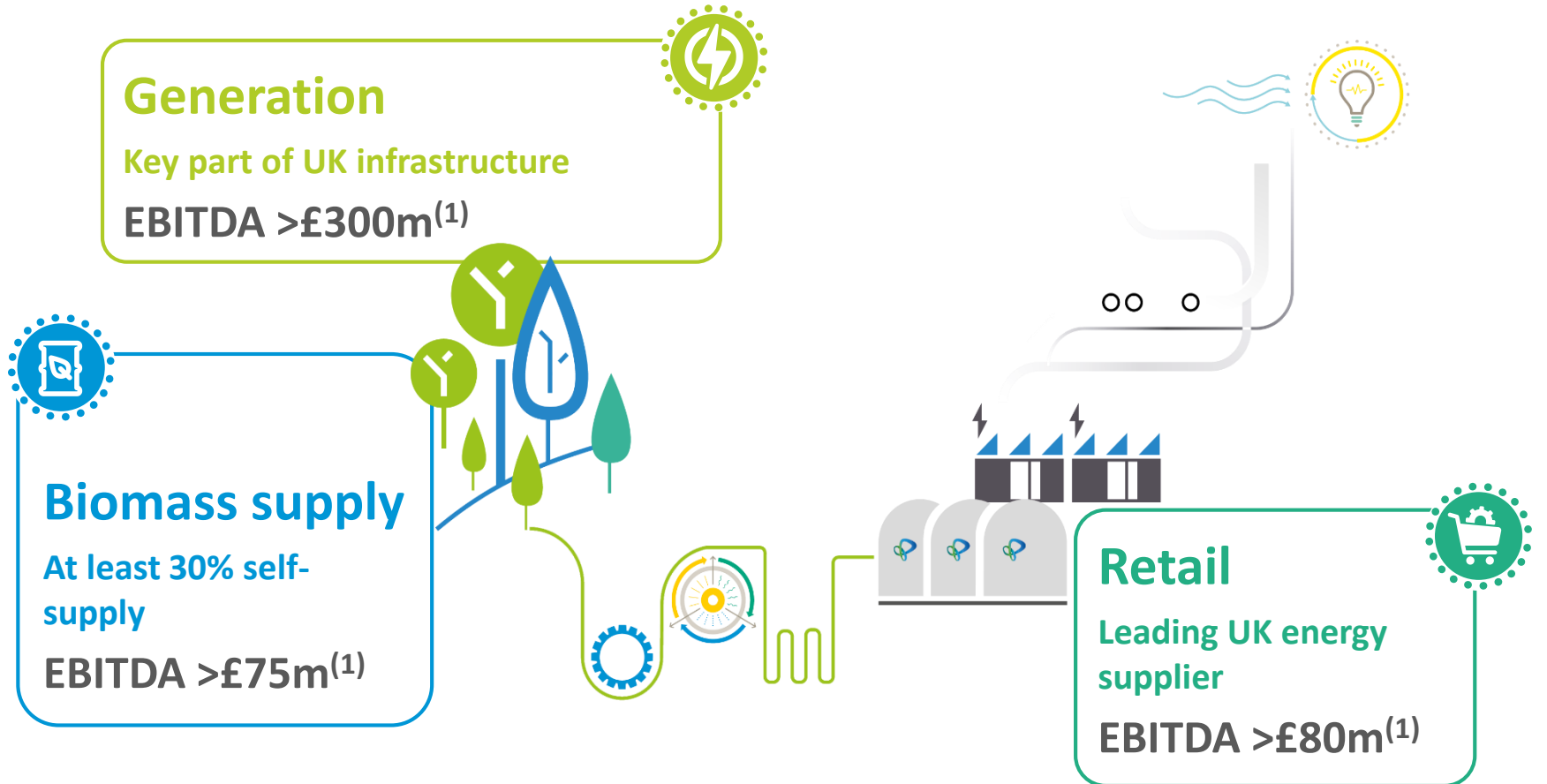


Delivering the Strategy



Drax Group 2025 EBITDA in Excess of £425m

High quality growing earnings across all areas of operation



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

Appendices

1. Definitions
2. IAS 39 Treatment
3. Group Income Statement
4. Group Underlying Earnings
5. Group Cash Flow Statement
6. Generation – Gross Profit
7. Retail – Gross Profit
8. Biomass Supply – Gross Profit
9. Consolidated EBITDA
10. ROC Reporting
11. Tax Reconciliation
12. Group Balance Sheet
13. Contracted Power Sales
14. Forward Spread Movements
15. Commodity Price Movements
16. Half Hourly Market Index Prices
17. Coal Capacity and IED

Appendix 1: Definitions

Abbreviation	Name	Description
API2/4/6		API2 is the main reference price (including cost, freight and insurance) for steam coal to be delivered to Amsterdam, Rotterdam and Antwerp. API4 is the reference price for steam coal to be delivered free on board ("FOB") to Richards Bay, South Africa. API6 is the reference price for steam coal to be delivered FOB to Newcastle, Australia.
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.
ELV	EMISSION LIMIT VALUES	One of the mechanisms available to implement the LCPD. This sets annual limits on the emissions of NO _x , SO ₂ and particulate which will be incorporated into the forthcoming PPC permit.
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.
I&C	INDUSTRIAL & COMMERCIAL	
IED	INDUSTRIAL EMISSIONS DIRECTIVE	European Parliament and the Council directive on industrial emissions is the main EU instrument regulating pollutant emissions from industrial installations.
NO _x		Nitrogen oxides, emissions of which are regulated under the LCPD.
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.
SME	SMALL MEDIUM ENTERPRISE	
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: IAS 39 Treatment

Financial Instrument	Location of gains and losses in the annual report
Power	Hedge Reserve
International coal	Hedge Reserve and Income Statement
Financial coal	Largely Income Statement
Foreign exchange	Hedge Reserve and Income Statement
Carbon	Hedge Reserve
Gas	Income Statement
Oil	Income Statement
Freight	Income Statement
Wind	Income Statement

Appendix 3: Group Income Statement

In £m	H1 2017	H1 2016	▲%
Revenue	1,800	1,487	
Cost of sales	(1,525)	(1,305)	
Gross profit	275	182	
Operating costs	(154)	(112)	
EBITDA	121	70	73%
Unrealised (losses) / gains on derivative contracts	(65)	163	
Depreciation	(89)	(52)	
Other items	(7)	-	
Operating profit	(40)	181	
Net finance (cost) / credit	(43)	3	
(Loss) / profit before tax	(83)	184	
Tax credit / (charge)	15	(35)	
Reported (loss) / earnings	(68)	149	
Underlying earnings	9	17	(47)%
Reported basic (loss) / earnings per share (pence)	(16.8)	36.6	
Underlying basic earnings per share (pence)	2.2	4.2	(47)%
Total dividend per share (pence)	4.9	2.1	

Appendix 4: Group Underlying Earnings

In £m	H1 2017	H1 2016	▲%
Reported earnings	(68)	149	
Unrealised losses / (gains) on derivative contracts	65	(163)	
Other items	6	-	
Cost of refinancing	24	-	
Tax impact of above adjustments	(18)	31	
Underlying earnings	9	17	(47)%

Appendix 5: Group Cash Flow Statement

In £m	H1 2017	H1 2016	▲%
EBITDA	121	70	
Working capital / other	114	88	
Debt service	(29)	(9)	
Tax	(9)	2	
Net cash from operating activities	197	151	30%
Capital expenditure	(56)	(48)	
Acquisition of LaSalle Bioenergy	(27)	-	
Net refinancing	239	-	
Acquisition of Opus Energy and rapid response gas	(380)	-	
Other	(4)	(2)	
Net cash flow	(31)	101	
Cash and cash equivalents at the beginning of the period	228	134	
Net cash flow	(31)	101	
Cash and cash equivalents at the end of the period	197	235	

Appendix 6: Generation – Gross Profit

In £m	H1 2017	H1 2016	▲%
Revenue⁽¹⁾			
Power sales	1,044	970	
ROC sales	126	190	
Ancillary Services income	21	20	
Fuel sales	3	-	
Other income	4	2	
	1,198	1,182	1%
Cost of sales			
Generation fuel costs	(601)	(583)	
Fuel sold	(2)	-	
ROC support	219	316	
Carbon tax	(50)	(52)	
Cost of carbon allowances	(20)	(16)	
ROCs sold or utilised	(125)	(190)	
Cost of power purchases	(383)	(457)	
Grid charges	(32)	(33)	
	(994)	(1,015)	(2)%
Gross profit	204	167	22%

Generation – biomass / coal

2017: 7.3TWh / 3.4TWh

2016: 7.5TWh / 3.4TWh

Average achieved price

2017: £47.3/MWh

2016: £47.1/MWh

Fuel cost

2017: £56.2/MWh

2016: £53.5/MWh

ROC support

2017: £45.6/MWh

2016: £42.1/MWh

Carbon allowances

2017: 3.0m

2016: 3.1m

Appendix 7: Retail – Gross Profit

In £m	H1 2017	H1 2016	▲ %
Revenue	940	643	46%
Cost of sales			
Cost of power and gas purchases	(442)	(339)	
Grid charges	(207)	(149)	
Other retail costs	(230)	(145)	
	(879)	(633)	42%
Gross profit	61	10	510%

Appendix 8: Biomass Supply – Gross Profit

In £m	H1 2017	H1 2016	▲ %
Revenue	54	32	69%
Cost of sales	(41)	(25)	64%
Gross profit	13	7	86%

Appendix 9: Consolidated EBITDA

Consolidated EBITDA H1 2017

In £m	Generation	Retail	Biomass Supply	Adjustments	Consolidated
Segment EBITDA	137	11	(4)	(2)	142
Central costs					(21)
Consolidated EBITDA					121

Consolidated EBITDA H1 2016

In £m	Generation	Retail	Biomass Supply	Adjustments	Consolidated
Segment EBITDA	86	(2)	(3)		81
Central costs					(11)
Consolidated EBITDA					70

Appendix 10: ROC Reporting

ROC assets	In £m
At 31 December 2016	258
Generated	234
Utilised or sold	(126)
At 30 June 2017	366

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 11: Tax Reconciliation

In £m	Reported		Underlying	
	H1 2017	H1 2016	H1 2017	H1 2016
Profit / (loss) before tax	(83)	184	13	21
Tax at UK CT rate	16	(37)	(3)	(4)
Adjustment to prior year taxes and other Items	(2)	2	(1)	-
Tax (charge) / credit	14	(35)	(4)	(4)
Effective tax rate	17%	19%	31%	19%

UK corporation tax (CT) rates

19.25% for 2017 and 20% for 2016

2017 underlying tax rate

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

Appendix 12: Group Balance Sheet

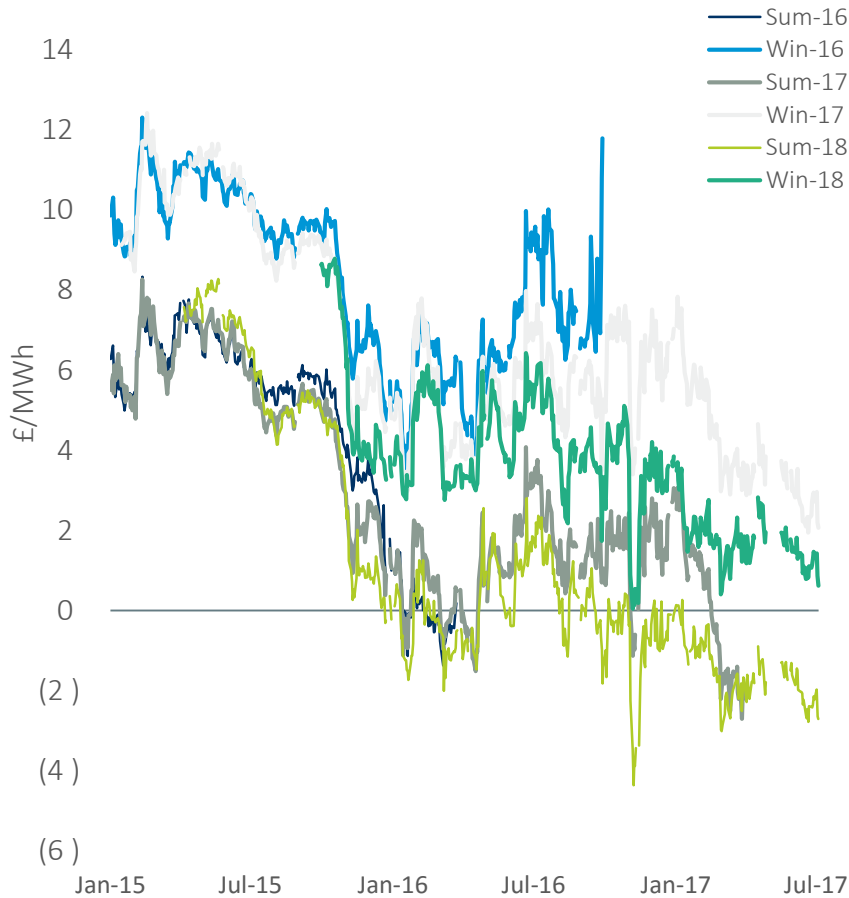
In £m	H1 2017	H1 2016	▲ %
Non-current assets	2,391	2,136	
Current assets	1,402	1,416	
Current liabilities	986	791	
Non-current liabilities	933	838	
Net assets	1,874	1,923	(4)%
Shareholder's equity	1,874	1,923	

Appendix 13: Contracted Power Sales

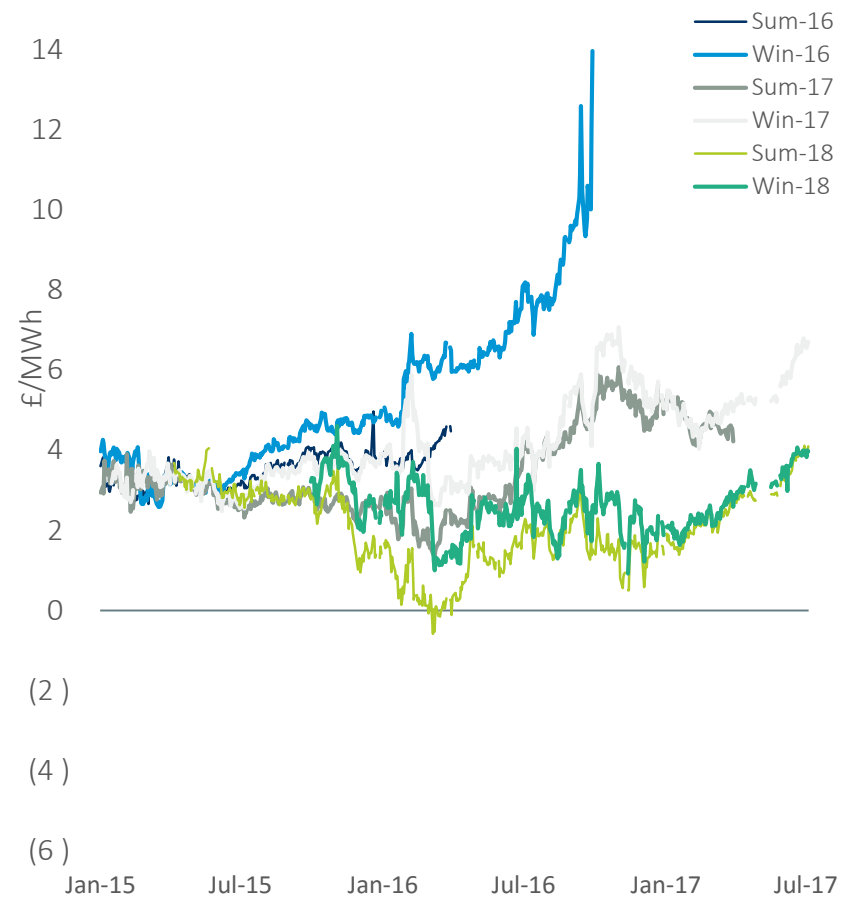
Contracted at 12 July 2017	2017	2018
Power sales (TWh)	18.8	11.0
- Fixed price power sales (TWh)	17.7	8.6
At an average achieved price (per MWh)	£45.9	£42.2
- Gas hedges (TWh)	1.1	2.4
At an achieved price per therm	46.7p	46.4p

Appendix 14: Forward Spread Movements

Dark Green Spread

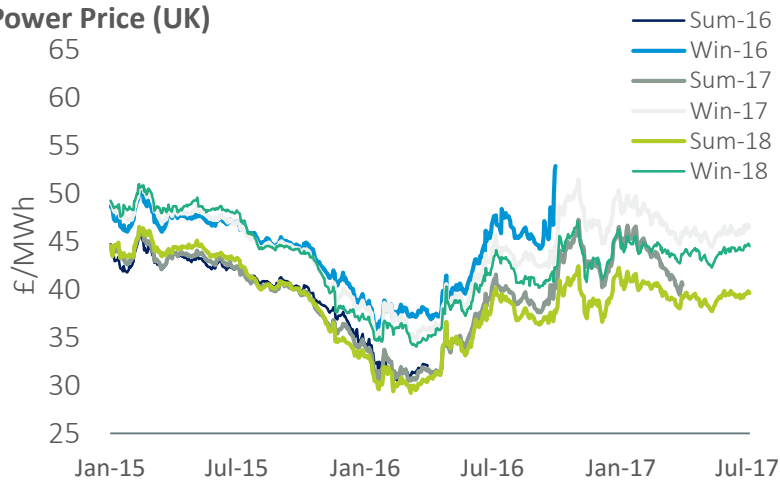


Clean Spark Spread

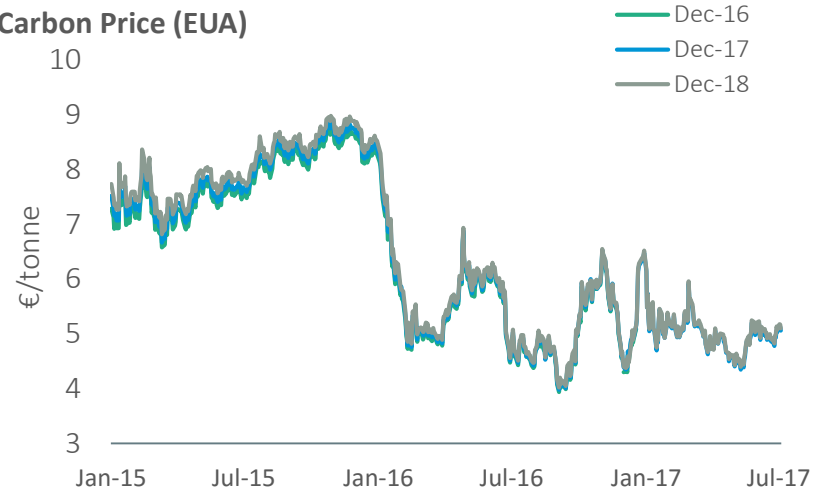


Appendix 15: Commodity Price Movements

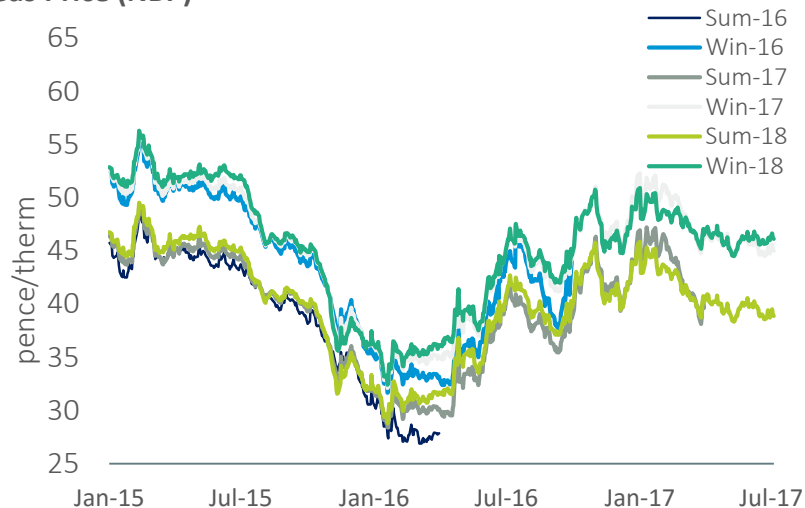
Power Price (UK)



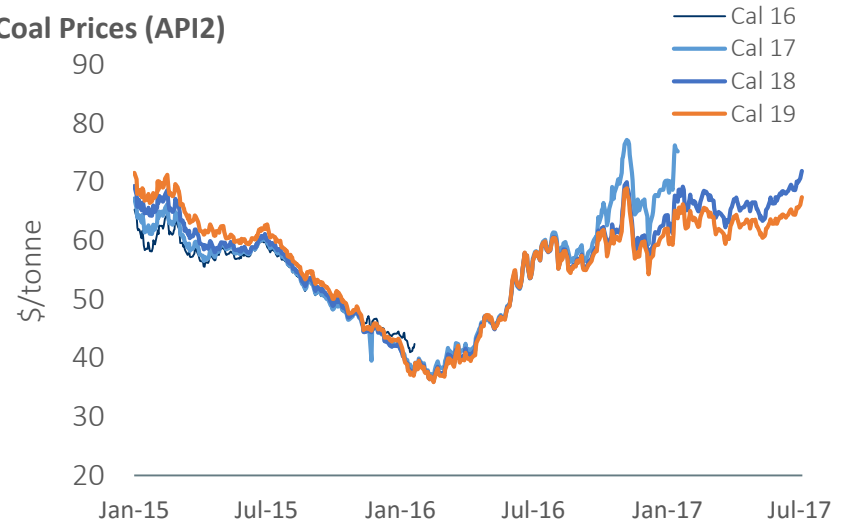
Carbon Price (EUA)



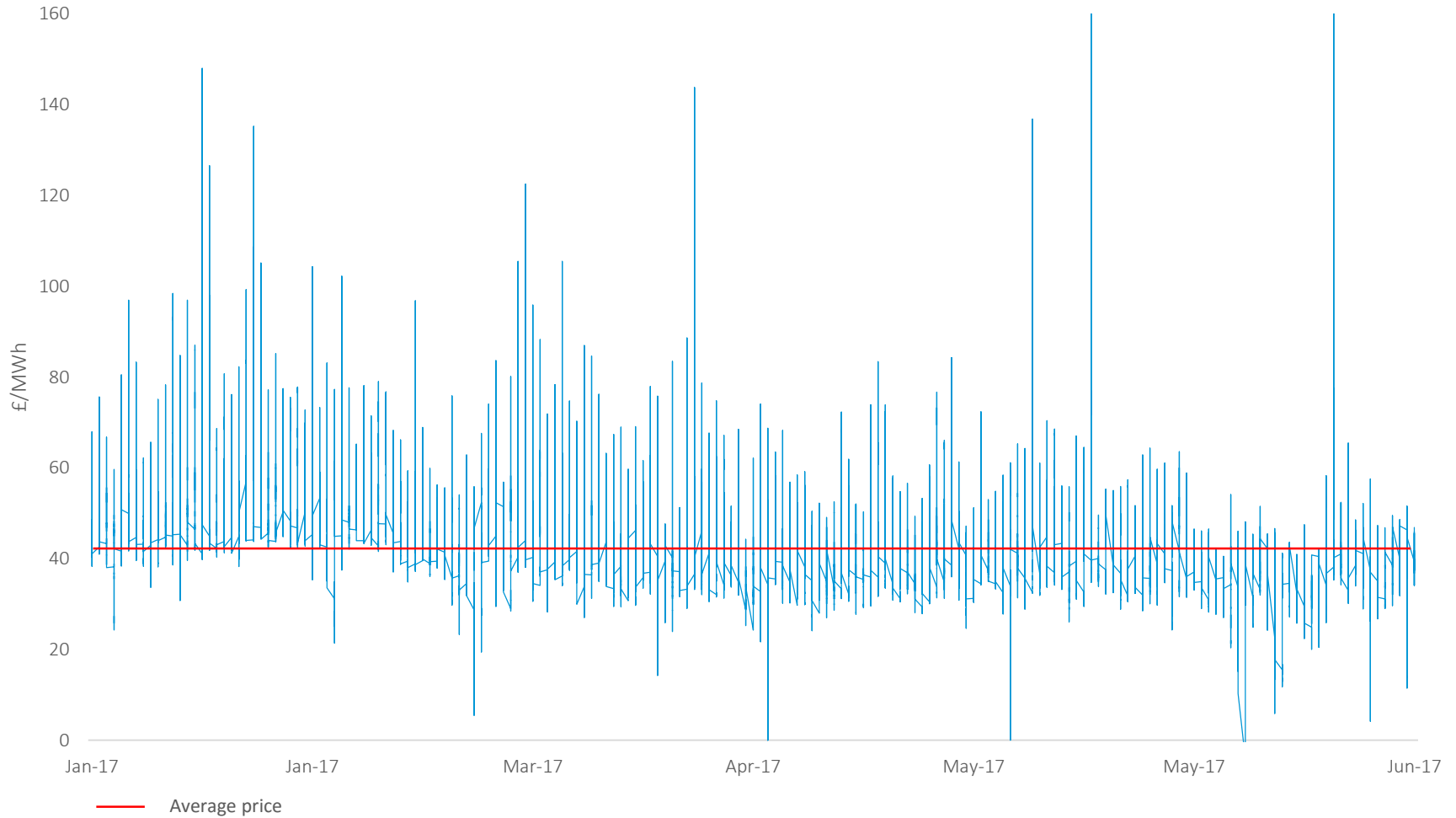
Gas Price (NBP)



Coal Prices (API2)



Appendix 16: Half Hourly Market Index Prices



Appendix 17: Coal Capacity and IED

Installation	Operator	Fuel	Capacity (GWe)	IED ⁽¹⁾ Decision	17/18 CM ⁽⁴⁾	18/19 CM ⁽⁴⁾	19/20 CM ⁽⁴⁾	20/21 CM ⁽⁴⁾
Fiddlers Ferry	SSE	Coal	2.0	TNP ⁽²⁾	Yes	Yes	No	No
Eggborough	EPH	Coal	1.9	LLD ⁽³⁾	Yes	No	No	No
Cottam	EDF Energy	Coal	2.0	TNP ⁽²⁾	Yes	Yes	No	No
West Burton	EDF Energy	Coal	2.0	TNP ⁽²⁾	Yes	Yes ⁽⁵⁾	No	Yes ⁽⁵⁾
Aberthaw	RWE npower	Coal	1.6	TNP ⁽²⁾	Yes	Yes	Yes	Yes
Drax	Drax Power	Coal	2.0	TNP ⁽²⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾
Ratcliffe	E.ON UK	Coal	2.0	TNP ⁽²⁾	Yes	Yes	Yes	Yes
Total GWe			13.5					

Half Year Results

6 Months Ended 30 June 2017

19 July 2017

