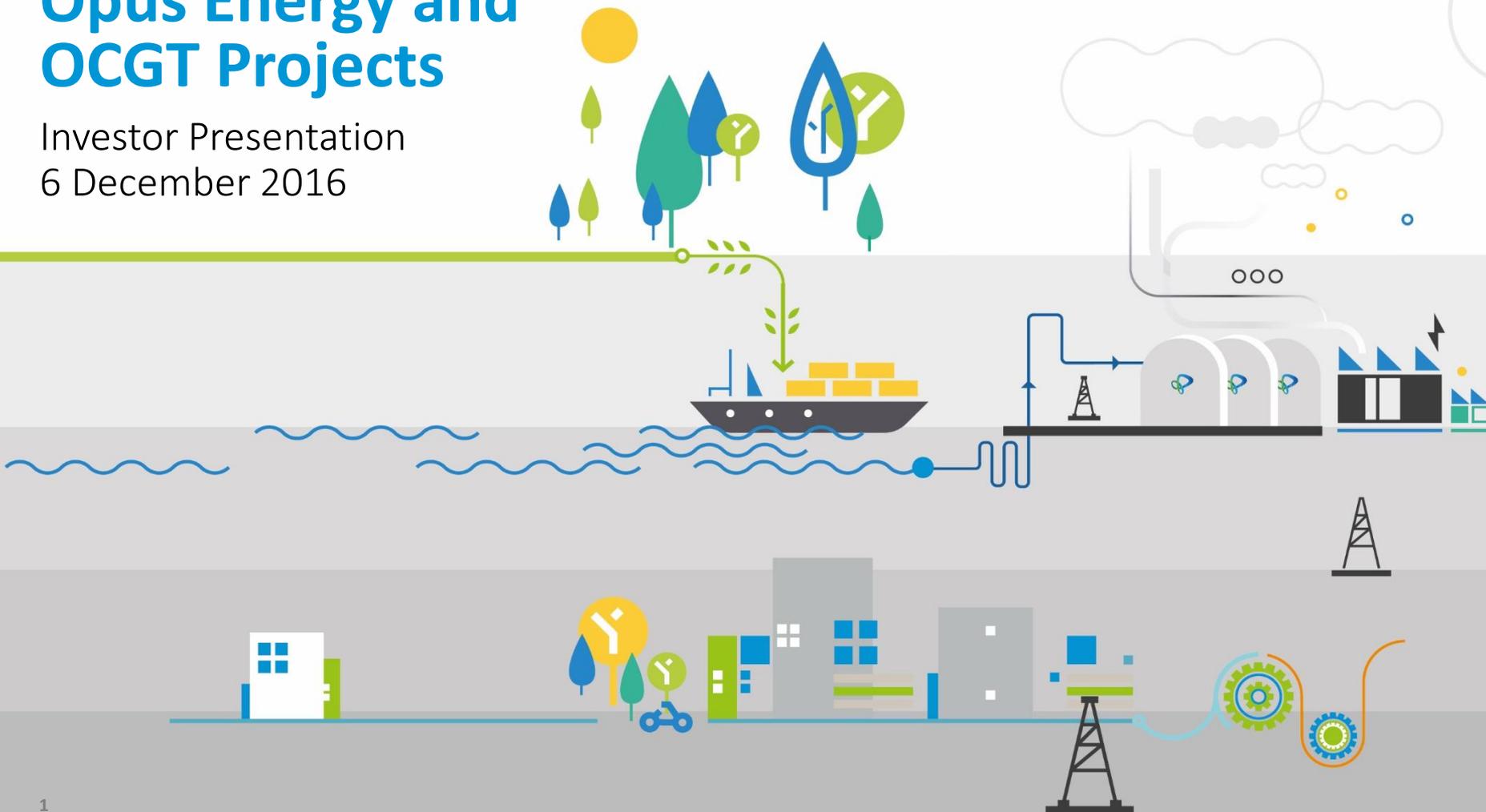


# Strategy Update, Opus Energy and OCGT Projects

Investor Presentation  
6 December 2016



# Agenda

## New Drax

Dorothy Thompson – Chief Executive Officer

## Opus Energy & OCGT Projects

Dorothy Thompson

Will Gardiner – Chief Financial Officer

## Summary

Dorothy Thompson



# New Drax



# Strategy Review

## A key catalyst is State aid approval

Remain confident of CfD approval

- Long-term private law contract with strong revenue visibility
- Solid foundation to the strategy

## Context to strategy update

Biomass transformation project to complete in 2016

Comprehensive review for strategy post completion

## 2016 EBITDA remain in line with expectations at H1 2016 results announcement

## 2016 H1 results announcement updated on strategy and objectives

Higher quality diversified earnings and management of commodity market exposure

- An increase in contractual and non commodity related earnings
- Broader and more diversified earnings

## Targeted long-term growth opportunities

- Priority on post 2027 earnings
- Creating new opportunities in all the markets in which we operate

# Our Purpose

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

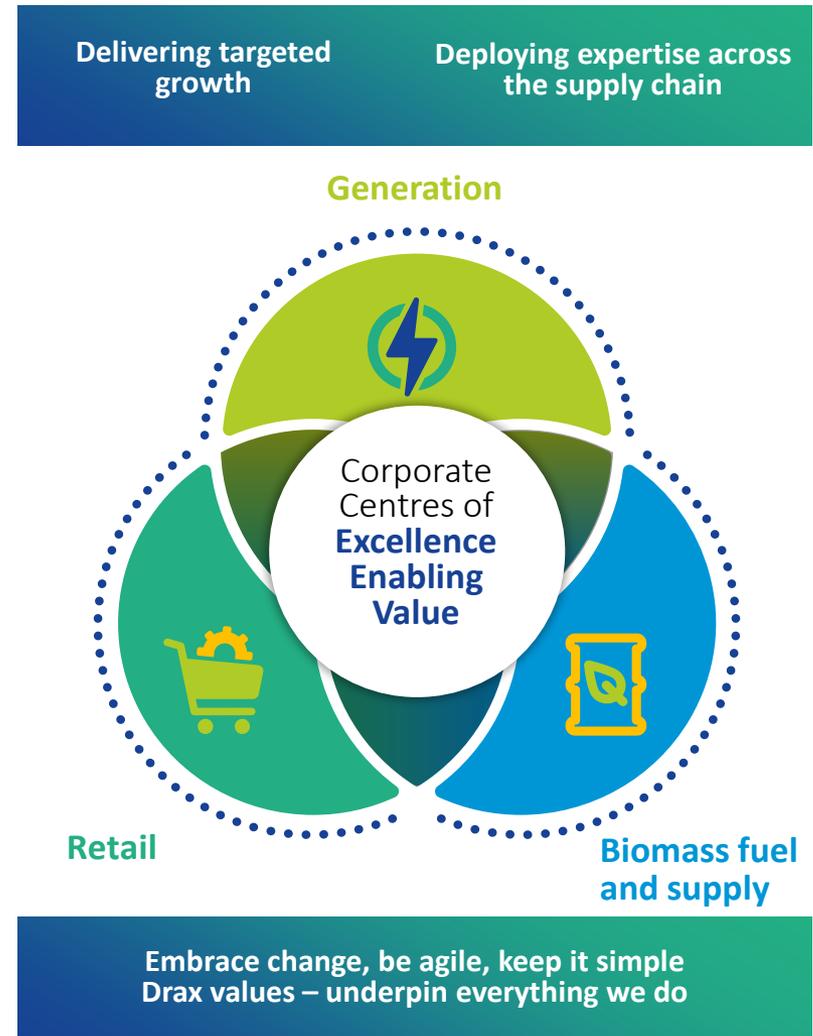
## How

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

## Result

A diversified energy business with expertise and operations in a range of markets interacting with each other

A strong, sustainable business model, with higher quality earnings and cash flows from a broader base of long-term business opportunities



# Strategic Summary

A strategy for all areas, with long-term benefits for all stakeholders

## Source

At least 20-25% biomass self-supply  
New biomass markets



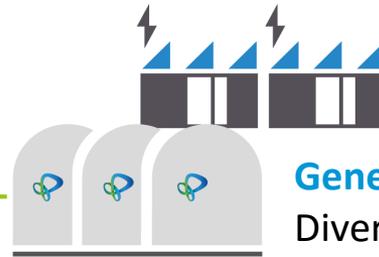
## Supply

Profitable business with critical mass



## Generate

Diversified generation and capacity  
Flexible, reliable operations and contract based revenues

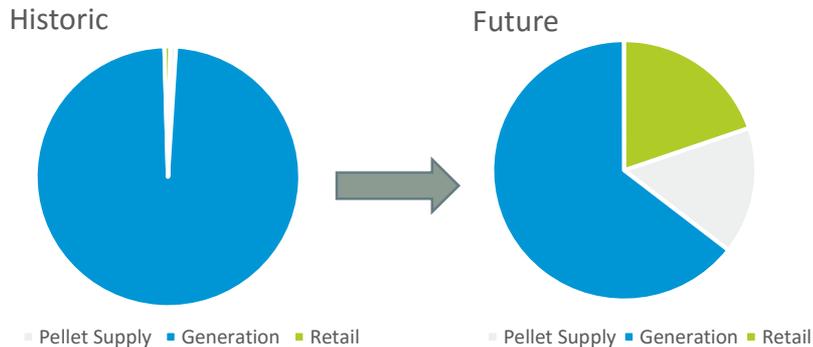


# Diversification of Base

Creation of a long-term higher quality, more diversified earnings base

## Increasingly diversified earnings...

(illustrative earnings)



## Creating opportunities for scale in all areas

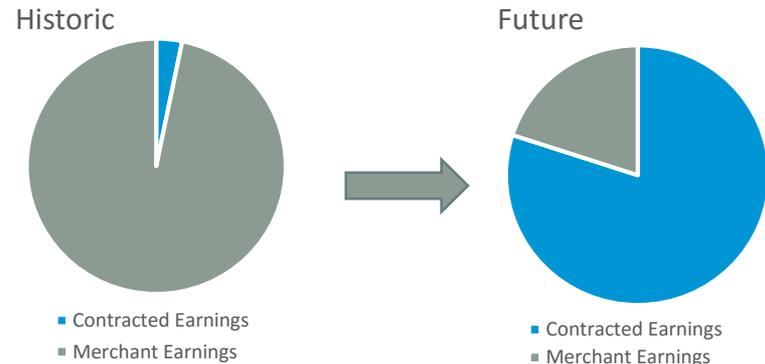
Pellet supply

Generation – existing and new

Retail

## ...offering higher quality and greater visibility

(illustrative earnings)

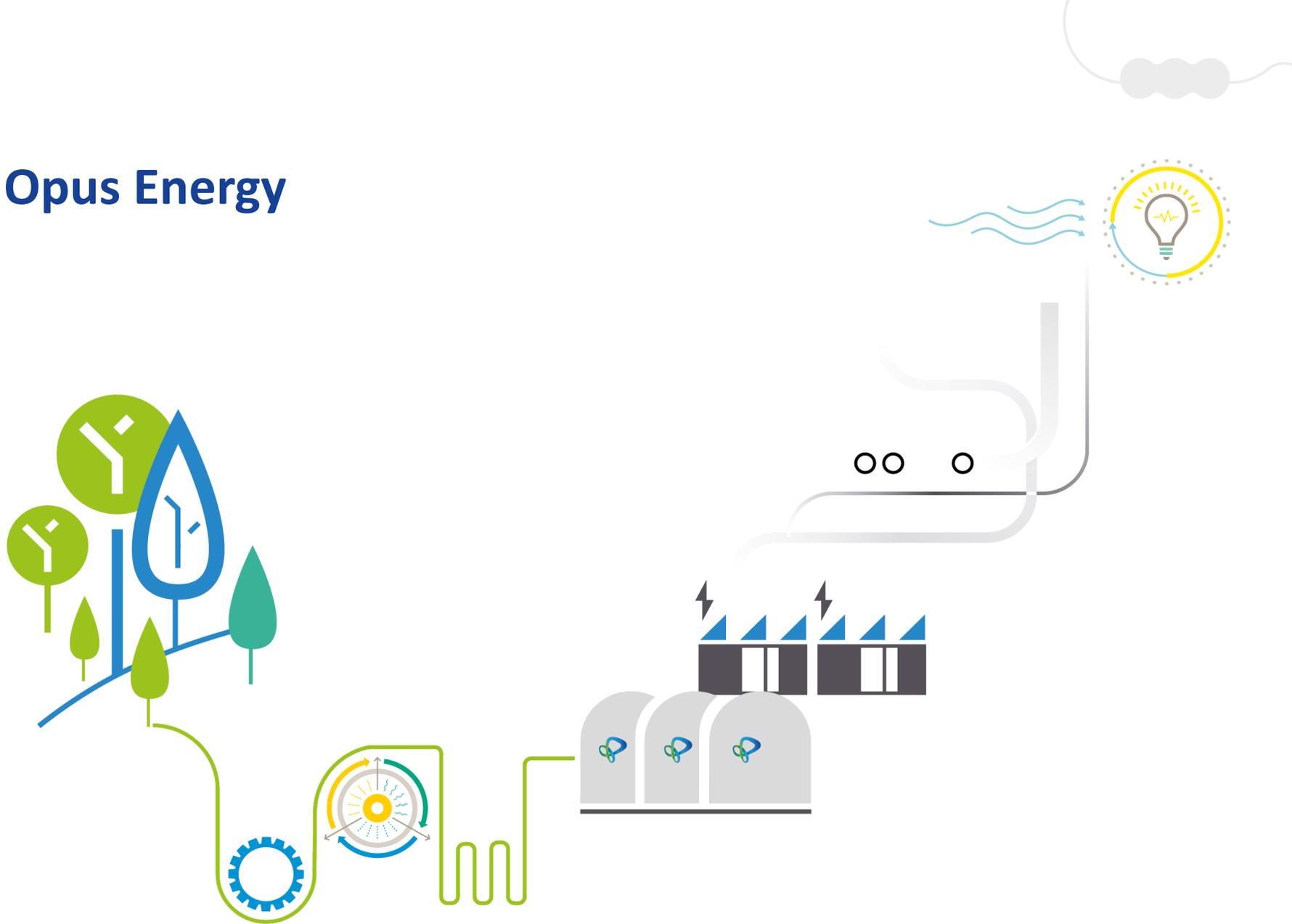


## Increasing contracted earnings, retaining upside to higher power prices

Contracted earnings – CfD, Ancillary Services, capacity payments, retail, biomass pellet supply

Merchant earnings – Coal and ROC generation, balancing market activity

# Opus Energy



# Proposed Acquisition of Opus Energy (Opus) for £340m

The leading “challenger brand” in the SME market

## A large, well established and proven business

Founded in 2002 by current management team

- Experienced management team – those critical to Drax committed to stay
- A consistent track record of profitable growth<sup>(1)</sup>
- Strong credit and risk management including commodity risk

Opus has always focused on the Small Medium Enterprise (SME) market

- An attractive market segment
- Supplier of electricity and gas
- The UK’s 6<sup>th</sup> largest non-domestic electricity supplier by meters

## A low cost business model

- Customers acquired using brokers and direct sales
- Commitment to customer service, high levels of customer retention

## Key Facts<sup>(2)</sup>

£573m  
Revenues

£33m EBIT  
6% Margin

265K Customer  
Meters

4.0TWh  
Electricity

1.7TWh  
Gas

c.870<sup>(3)</sup>  
Staff

Shareholders  
Management, Engie  
and Telecom Plus

(1) Underlying profit reflecting removal of Climate Change Levy Exemptions

(2) YE March 2016

(3) Current headcount

# Drax is a Natural Owner of Opus

## Compatible and complementary to existing retail business

### Complementary market positions

- Haven Power has strength in the I&C market
  - Haven Power has a well established platform for supplying large I&C customers
- Opus is well established in the SME market
  - Offering a platform and capability for establishing a strong position in the SME market

### Good cultural fit

- Challenger mentality
- Disciplined focus on risk management
- Common focus on customer service
- Integration team established, full integration plan well advanced

## Opportunities and benefits across the Group

- Trading and risk management benefits from combined power and commodity position
- Leverage on Drax flexible, reliable, renewable power generation offering to create energy solutions for customer

# Strategic Benefits of Acquisition

## Acceleration of Drax's retail strategy

Large and profitable SME business today

- Immediate market share
- High levels of customer retention >85%
- Gas sales expertise

Focused on profitable SME customers

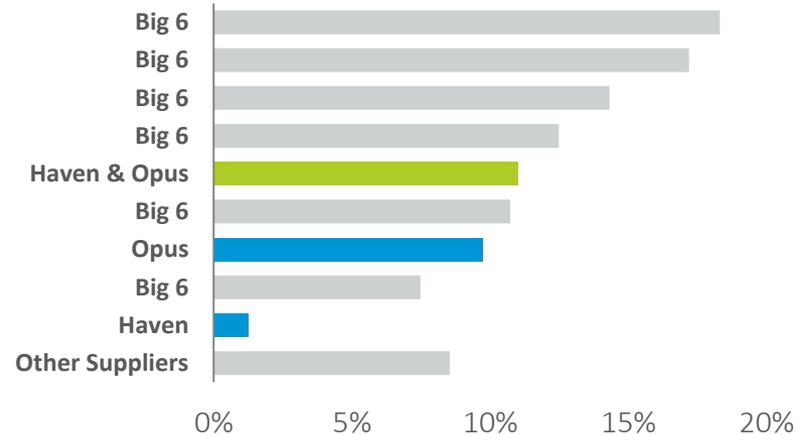
A proven financial and operational track record

- Consistent sales and profit growth<sup>(1)</sup>

Platform for further growth

- Infrastructure and expertise to support growth
- Established routes to market for power and gas in SME
- Opportunities for new products and services

## Non Domestic Electricity Market Share by Meters



Source: Cornwall Energy (sub 30GWh markets)

(1) Underlying profit reflecting removal of Climate Change Levy Exemptions

# A Strong Investment Case

A compelling range of strategic and financial benefits

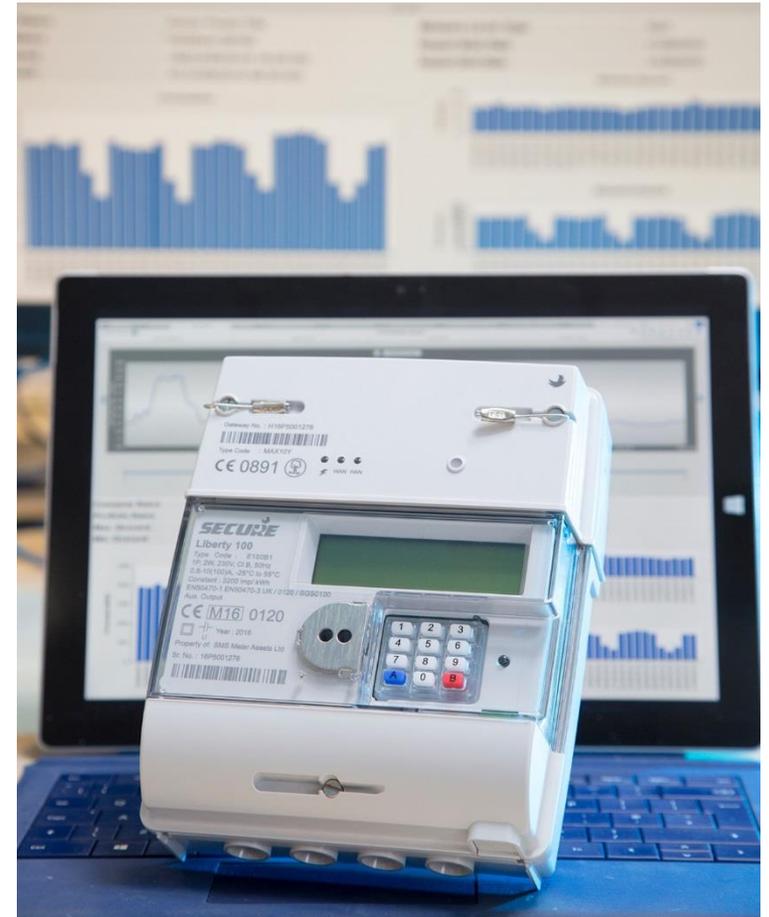
## Acquisition benefits to Drax Group

- Acceleration of Drax's retail strategy
  - Platform for growth
  - Compatible and complementary to existing retail business
- Advances transition to broader, higher quality long-term earnings
- Attractive financial returns
- Synergy potential

## Funding

All cash consideration, fully underwritten

- Credit facility agreed



# A Strong New Retail Business

Complementary businesses, with scale today in I&C and SME markets

Key Metrics	Haven YE Dec 2015	Opus YE Mar 2016	Proforma
<b>Revenues (£m)</b>	1,290	573	<b>1,863</b>
<b>Gross Profit (£m)</b>	19	107	<b>126</b>
<i>Gross profit margin</i>	1%	19%	
<b>Customer Meters (000's)</b>	30	265	<b>295</b>
<b>Power (TWh)</b>	13.8	4.0	17.8
<b>Gas (TWh)</b>	-	1.7	1.7
<b>Staff</b>	c.400	c.870	c.1,270

# Attractive Financial & Growth Profile in the SME Market

Solid historic financial performance, proven growth and low capital intensity

Financial Metrics	Mar-14	Mar-15	Mar-16
Revenues (£m)	434	524	573
<i>Year on year growth %</i>		21%	9%
Gross Profit (£m)	79	97	107
<i>Gross profit margin %</i>	18%	19%	19%
Operating Cost (£m)	49	60	73
EBITDA (£m) <sup>(1)</sup>	30	38	34
EBIT (£m) <sup>(1)</sup>	29	37	33
Cash from Operations (£m)	28	32	34

Operational Metrics	Mar-14	Mar-15	Mar-16
Meters (000's)	175	223	265
<i>Year on year growth %</i>		27%	19%
Power (TWh)	3.4	3.8	4.0
Gas (TWh)	0.8	1.2	1.7

## Strong financial and growth performance

Track record of customer and revenue growth

Consistent mid single digit EBIT margin

2017 profit in line with 2016

Strong cash conversion and low capital intensity

(1) Reduction in 2016 reflects removal of Climate Change Levy Exemptions

# Financial Benefits of Acquisition

## Advances transition to higher quality long-term earnings

Creation of new long-term retail earnings

Visibility of initial contract length (1-3 years) and a high level of customer retention >85%

Opportunity for alternative hedge to commodity market exposure

## Attractive financial returns

Return on invested capital greater than cost of capital

Significantly accretive to earnings, with strong cash flow generation

## Synergies

Elimination of the majority of historic trading arrangement costs – c.£6m

Opportunity for traditional operational efficiencies over time

# Funding and Process

## Funding the acquisition

New facility agreed to fully debt fund

Robust sub-investment grade business model

– S&P's BB rating affirmed in November 2016

Expect to refinance debt in 2017

## Timetable

6 December – share purchase agreement signed and announced

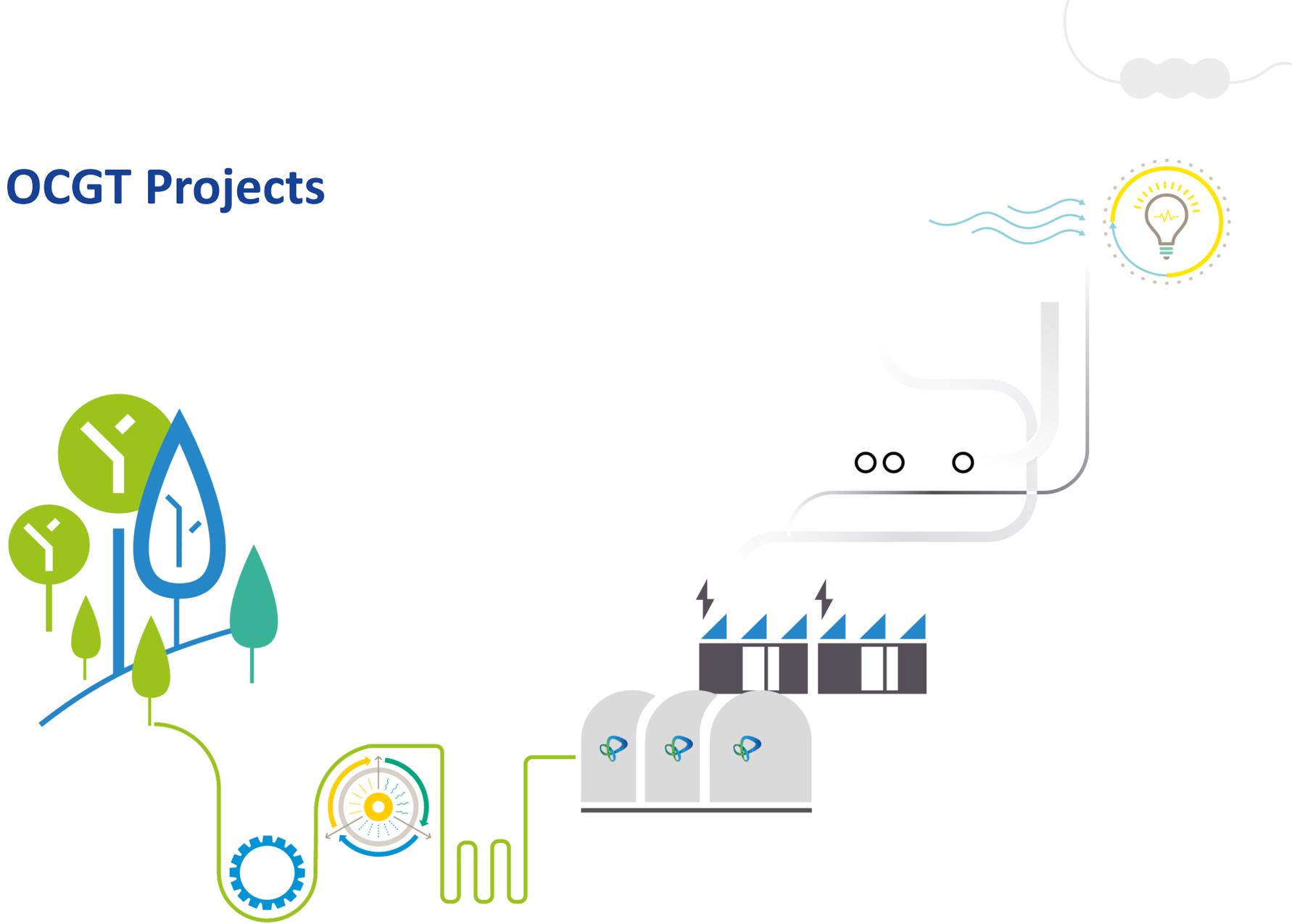
Early 2017 – Class 1 circular distributed and notice of General Meeting sent to shareholders

## Conditions

Subject to approval of CfD contract by European Commission

Subject to shareholder approval

# OCGT Projects



# A Response to a Changing System Dynamic

## Open Cycle Gas Turbine (OCGT)

A response to changing generation dynamic

- Growth of intermittent generation
- Closure of large thermal plant
- Continued generation from inflexible nuclear

Government targeting new gas capacity

- Supported by 15 year contract in capacity market, subject to clearing price

Fast response assets for system stability services

- Highly flexible capacity
- From cold to full load in ten minutes
- Mid merit plant, dispatch at times of system stress
- Low capital and operating cost, 10-15 permanent staff per unit



# Details of Acquisition

Potential development of c.1,200MW of OCGT backed by 15 year CM contract

## OCGT Projects

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

- Two sites with principal permits
  - Registered in 2016 T-4 capacity market auction for 2020/21
- Two sites in permit process
  - Targeted for 2019 T-4 capacity market auction for 2023/24
- Full development cost per project £80-100m

## Acquisition Terms

- Initial purchase price £18.5m
- Additional payment depending on clearing price

## Funding the acquisition

- Consideration paid from cash

Location Map



# Strategic Benefits of Acquisition

Opportunity to enhance Drax's generation strategy

## Lower carbon future

Capacity and flexibility support

- Essential market support to enable wind, solar and nuclear
- Complementary to Drax's low carbon, flexible biomass generation

Using core competencies

- Engineering
- Electricity and gas trading
- Project execution

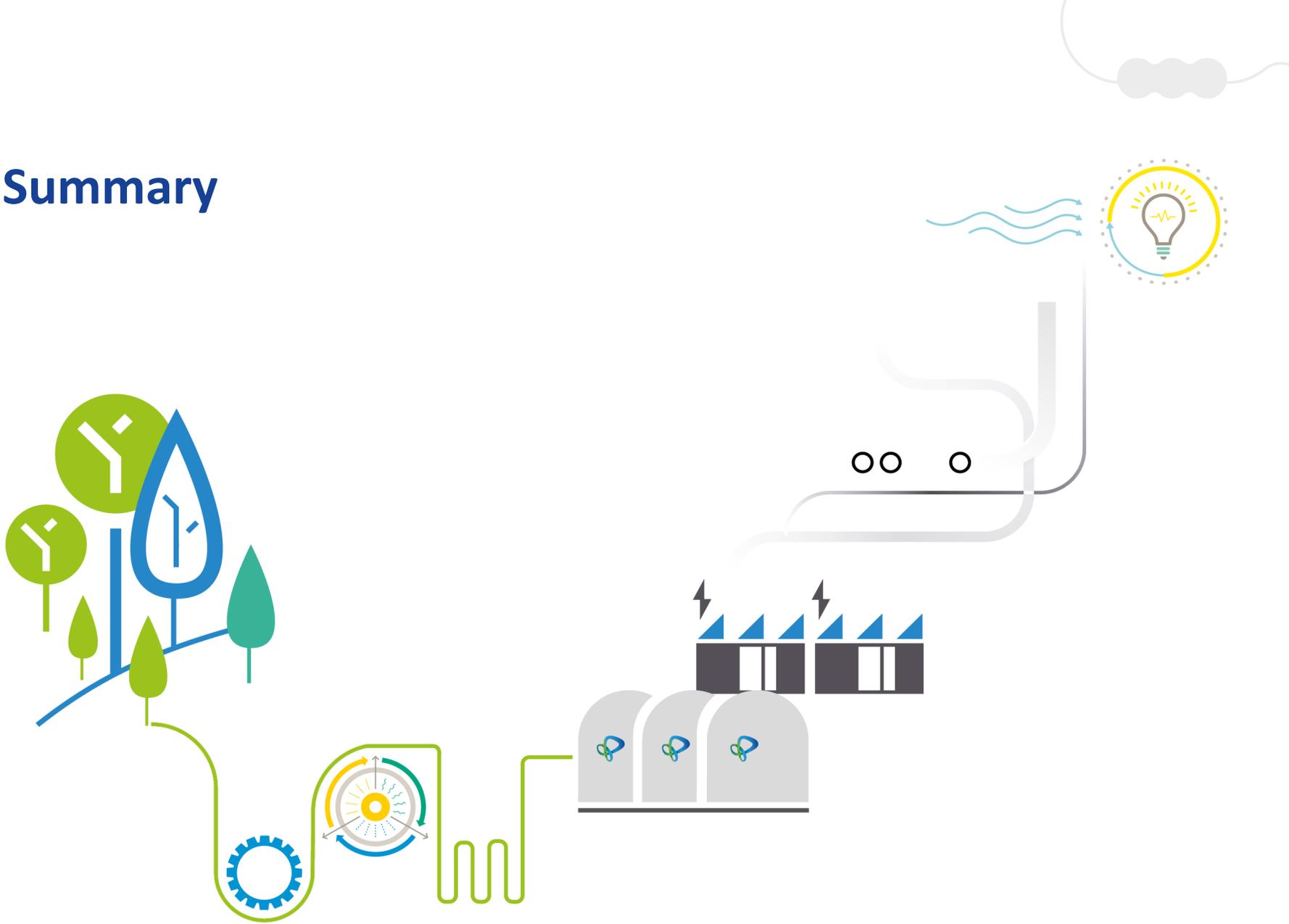
Creation of new long-term generation earnings

- High level of earnings visibility supported by 15 year capacity market contract, subject to clearing price
- Market opportunities in peak price periods

Diversified generation mix

Generation assets in different transmission zones

# Summary



# Creation of a Long-term Higher Quality, More Diversified Earnings Base

## Opus

Proposed acquisition of Opus for £340m

A well established and proven retail business serving the SME market

Compelling range of strategic and financial benefits

Diversifies Drax earnings base

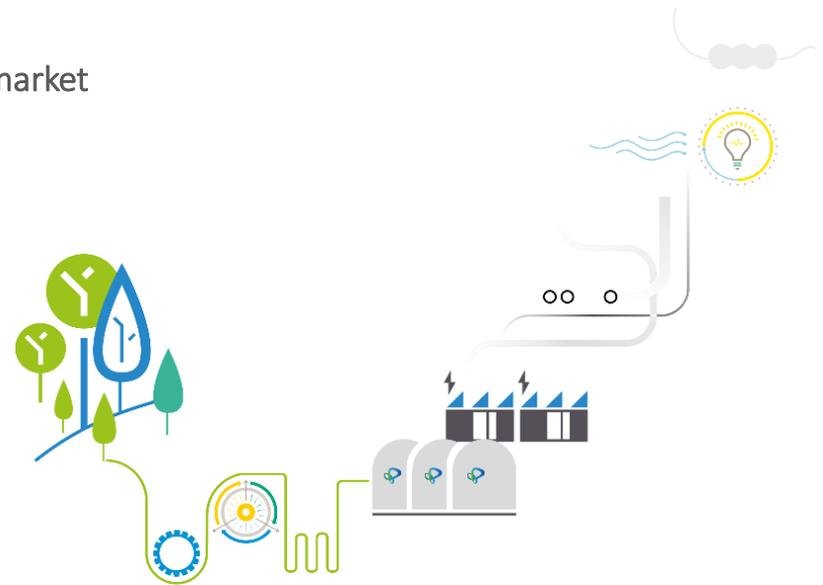
## OCGT Projects

A response to changing energy requirements

Acquisition of OCGT projects for £18.5m, with additional consideration payable dependent on clearing price in capacity market auctions

Four c.300MW OCGT gas-fired plant development projects

Diversifies Drax's generation mix



Changing the way energy is generated, supplied and used for a better future

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