

Preliminary Results

12 Months Ended 31 December 2016

16 February 2017



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

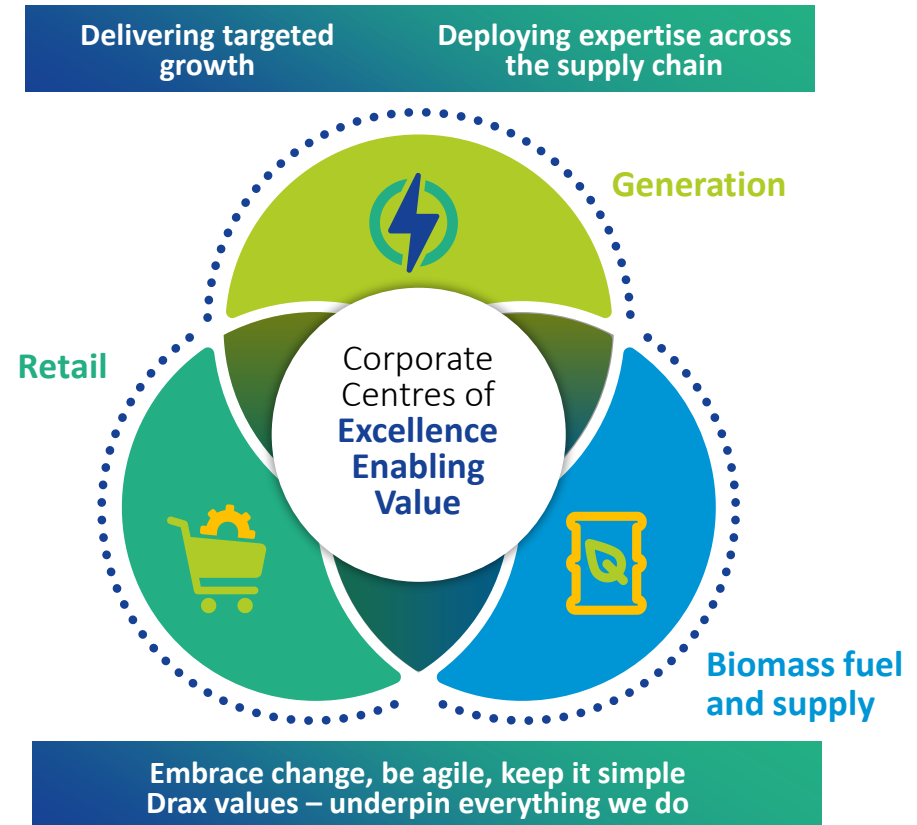
Dorothy Thompson – CEO

Agenda

2016 Operations and Business Review

Financial Review and Themes

Delivering the Strategy



2016 – Biomass Completion, New Phase of Strategy

Generation

Three converted biomass units, CfD approved
65% of generation from biomass
Challenging commodity markets, but reducing exposure
Supporting system stability through flexibility

Retail

Established challenger in I&C market

Biomass fuel and supply

Flexible capacity, supporting Group supply chain

Development of strategy

A broader business with higher quality long-term earnings
Acquisitions supporting strategic objectives

EBITDA

£140m

Underlying Earnings Per Share

5.0p/share

Total Dividend

2.5p/share

Safe and Sustainable Operations

Safety

Strong Group safety performance

- Consistent top quartile performer⁽¹⁾

Sustainability

Proven carbon abatement⁽²⁾

- Well established sustainability policy
 - Strong governance and audit process

Major reduction in NOx emissions

- Biomass generation and NOx abatement strategy
- IED⁽³⁾ compliant

Total Recordable Injury Rate

0.22

(2015: 0.31)

Carbon Life Cycle Emissions

34g CO₂/MJ

UK target 2015-2020 79g CO₂/MJ

NOx

53% reduction

(2015: 31K tonnes)

Enhancing the Retail Proposition

Haven Power

Established challenger in I&C⁽¹⁾ market

- c.13TWh contracted for next 12 months
- Sales £1.3bn (2015: £1.3bn)

Good operational performance

- Strong I&C renewal performance
- Good credit quality with low bad debt
- Consistently strong service performance

New generation IT systems

- Smart meter support
- Increasing data driven product alternatives

Opus acquisition completed 10 February 2017

Power Sales Volume

14.6TWh

(2015: 13.8TWh)

Gross Profit

£23m

(2015: £19m)

Biomass Generation – Lowest Cost Large Scale Renewable

Biomass operations

Three fully converted biomass units, CfD approved

Only large scale flexible renewable generator

- Largest single source of renewable energy in UK
- Supply chain working well

Fuel hedging

- Long-term fuel contracts
- Strong FX hedge to 2021

Developing options for future unit conversions

- Trialling low cost solutions

16% of UK renewable
electricity⁽¹⁾

10% of total renewable cost⁽²⁾

Biomass
Generation
12.7TWh
(2015: 11.5TWh)

Total
Generation
19.6TWh
(2015: 26.7TWh)

Biomass
Generation
65% of total
(2015: 43%)

Coal Generation – Security of Supply & System Support

Strong operational performance

Adapting to market conditions

- Focus on system support services
 - Flexible operation in prompt and balancing markets
 - Black Start contract, April 2016 – March 2017
- Targeted investment, maintaining optionality
 - Tailored maintenance to system support role
 - Deferred major planned outage to 2018

Capacity market

- Contracts secured for 2017-2021
- Two coal units and three gas turbines on Drax site

Consultation on future of unabated coal

- Expect end of coal generation 2025
- Accelerated depreciation of coal-specific assets from 2017

Coal
Generation

6.9TWh

(2015: 15.2TWh)

Total
Generation

19.6TWh

(2015: 26.7TWh)

Coal
Generation

35%

(2015: 57%)

Number of Unit Starts

400

(2015: 150)

Drax Biomass – a Major Supplier of Wood Pellets

US operations working well

Providing supply chain flexibility

- Nameplate capacity achieved
- Reduced production to capture attractively priced spot cargoes, retain option for further flexibility

Significant benefits of self-supply

Targeting 20-30% of required generation

- Low cost expansion opportunity on existing plant
 - Increase capacity c.150k tonnes
 - Greater utilisation of lower cost residues
 - Capital investment c.£10m, two year payback
- Evaluating potential opportunities for distressed pellet plant acquisitions

Investigating new market opportunities

Pellet Production

0.6mt

(2015: 0.3mt)

Sustainability

**All sites now
SBP certified**

Financial Review and Themes



2016 Financial Highlights

Will Gardiner – CFO

EBITDA

£140m

(2015: £169m)

Final Dividend

0.4p (£2m)

(2015: 0.6p, £2m)

Net Increase in Cash

£95m

(2015: Net decrease £47m)

Underlying EPS⁽¹⁾

5.0p

(2015: 11.3p)

Total Dividends

2.5p (£10m)

(2015: 5.7p, £23m)

Net Debt⁽²⁾

£93m

(December 2015: £187m)

2016

Good performance

Challenging commodity markets

Strong cost and cash management

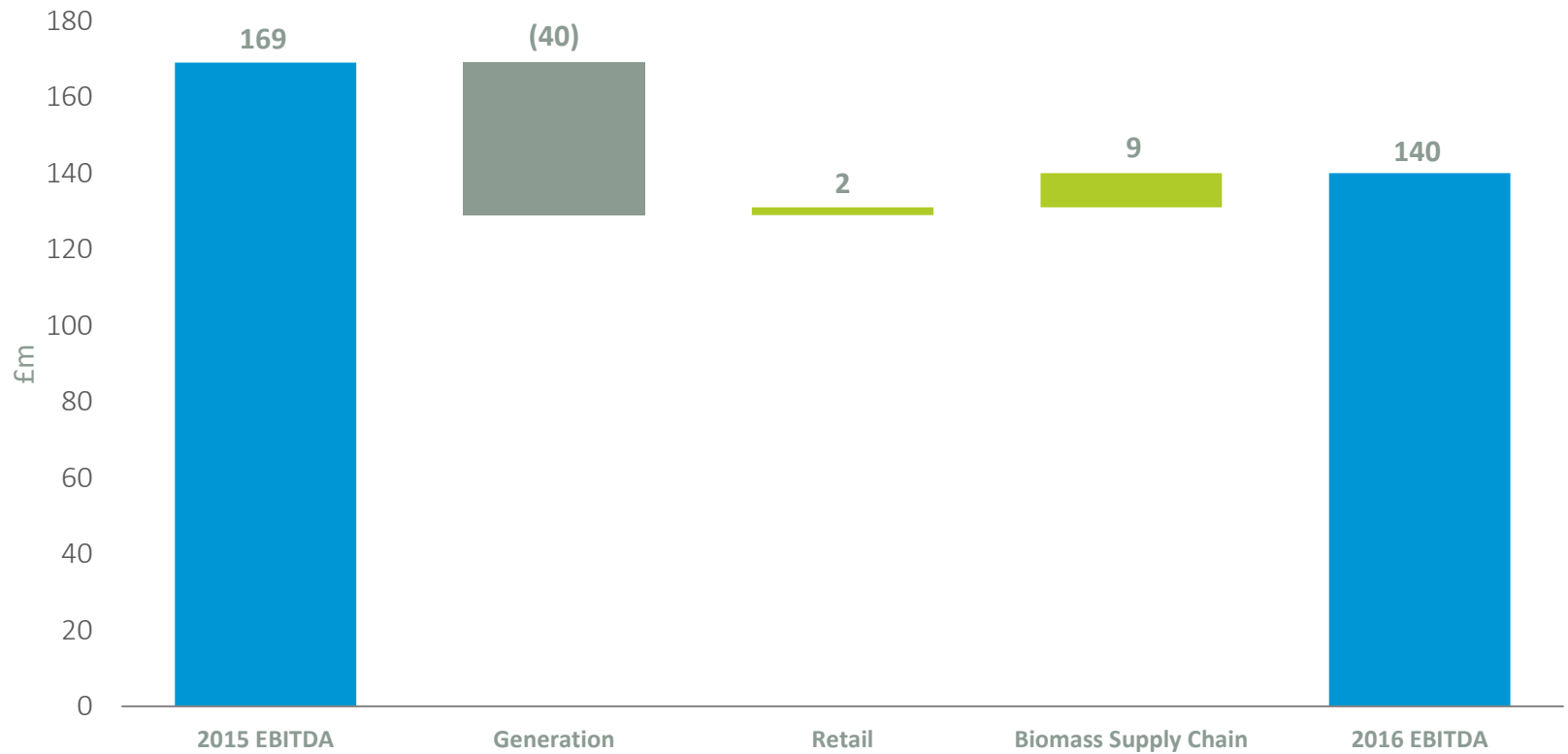
Increasing non-commodity related earnings

2016 Financial Review

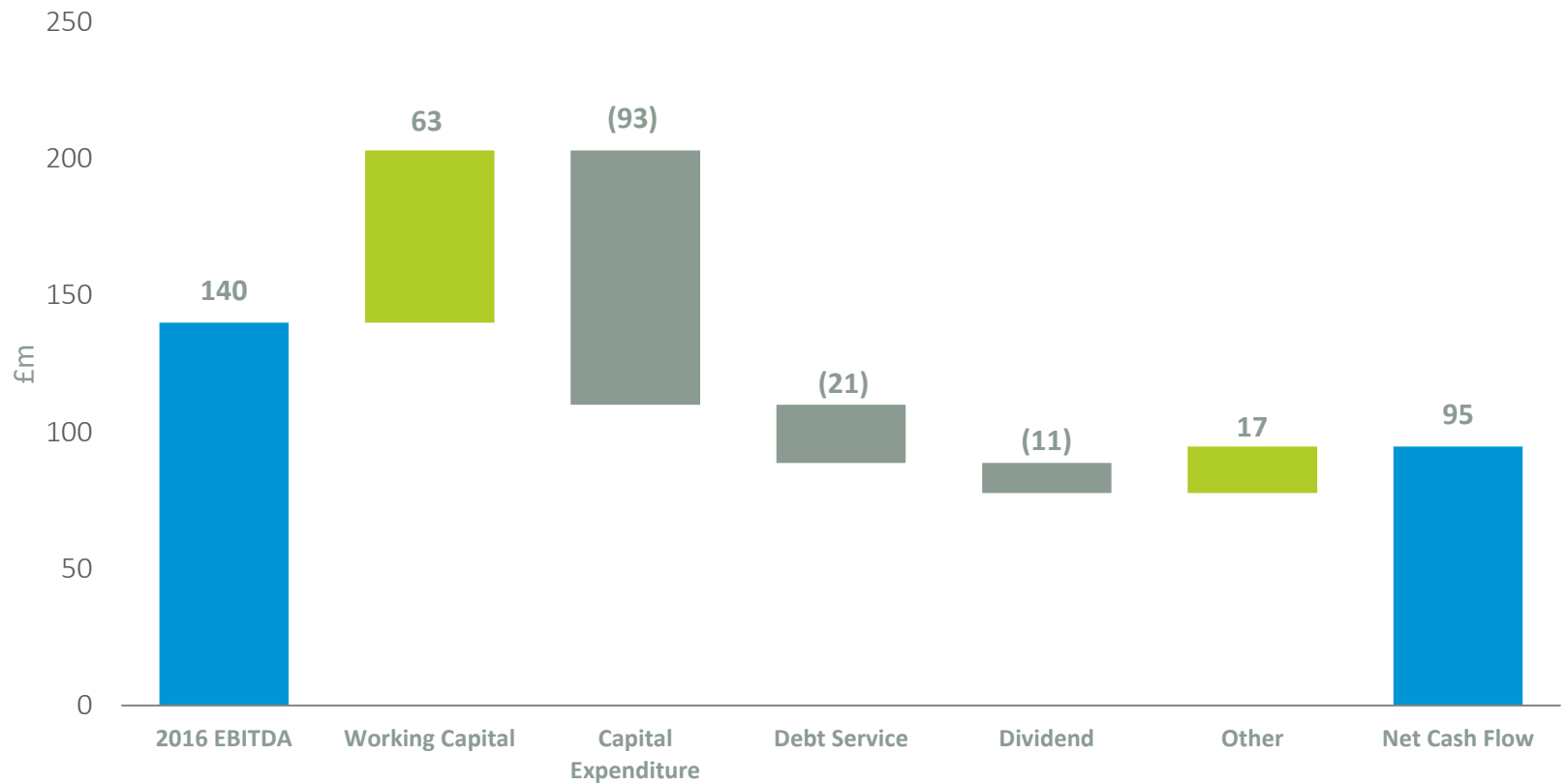
Good Performance in Challenging Markets

Income Statement	2016 £m	2015 £m	▲ %
Revenue	2,950	3,065	(4%)
Gross profit	376	409	(8%)
Operating costs	(236)	(240)	2%
EBITDA	140	169	(17%)
EBIT	27	61	(56%)
Underlying earnings ⁽¹⁾	21	46	(54%)
Cash and Balance Sheet	2016 £m	2015 £m	▲ %
Net cash from operating activities	191	148	29%
Capex	93	179	(48%)
Net Debt	93	187	50%

EBITDA Bridge 2015 – 2016



Net Cash Flow



2017 Financial Themes

Outlook

Improving quality and stability of earnings, reducing commodity market exposure

- First full year of CfD
- Retail and supply chain earnings
- System support role
- Inclusion of Opus
- Evaluating potential opportunities for distressed pellet plant acquisitions

Enabling the strategy

Expect to refinance existing debt during 2017

Review of dividend policy

Capital investment

Base business and strategic initiatives



Debt Refinancing

Funding in place to support Opus acquisition

£375m acquisition debt facility

- £200m drawn
- Balance from existing sources of cash and liquidity

Refinancing strategy for 2017

Evaluating range of options

Cash and working capital optimisation

Maintain strong balance sheet

Committed to BB range

Net debt to EBITDA – c.2x by December 2017



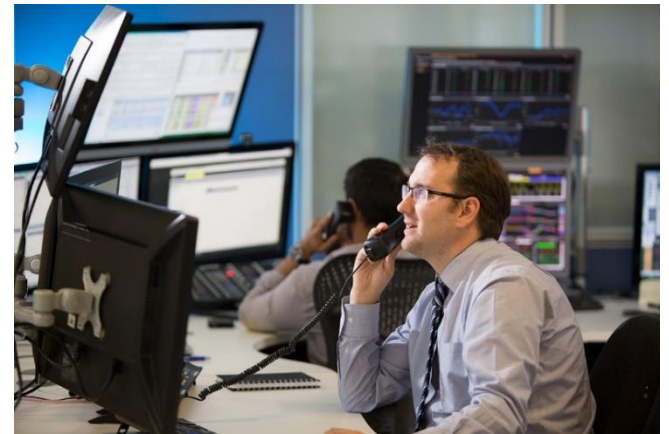
Dividend Policy

Evaluating current policy

Considerations

- Protect and maintain strong balance sheet
- Investment in long-term growth
- Increase in depreciation charge

Shareholder views sought during H1 2017



2017 Financial Assumptions

EBITDA drivers

Major planned outage on CfD unit

Opus – consolidated from 10 February

Commodity environment

- Power market remains challenging

Full year EBITDA

In line with consensus

Capital expenditure

In line with 2016

- Investment in base business and strategic initiatives
- Strategic initiatives includes investment in US pellet plants, strategic spares and IT systems

Depreciation

Consultation on future of unabated coal

- Accelerate depreciation of coal-specific assets
- Total annual depreciation c.£160m

Financial Summary

2016

A turning point

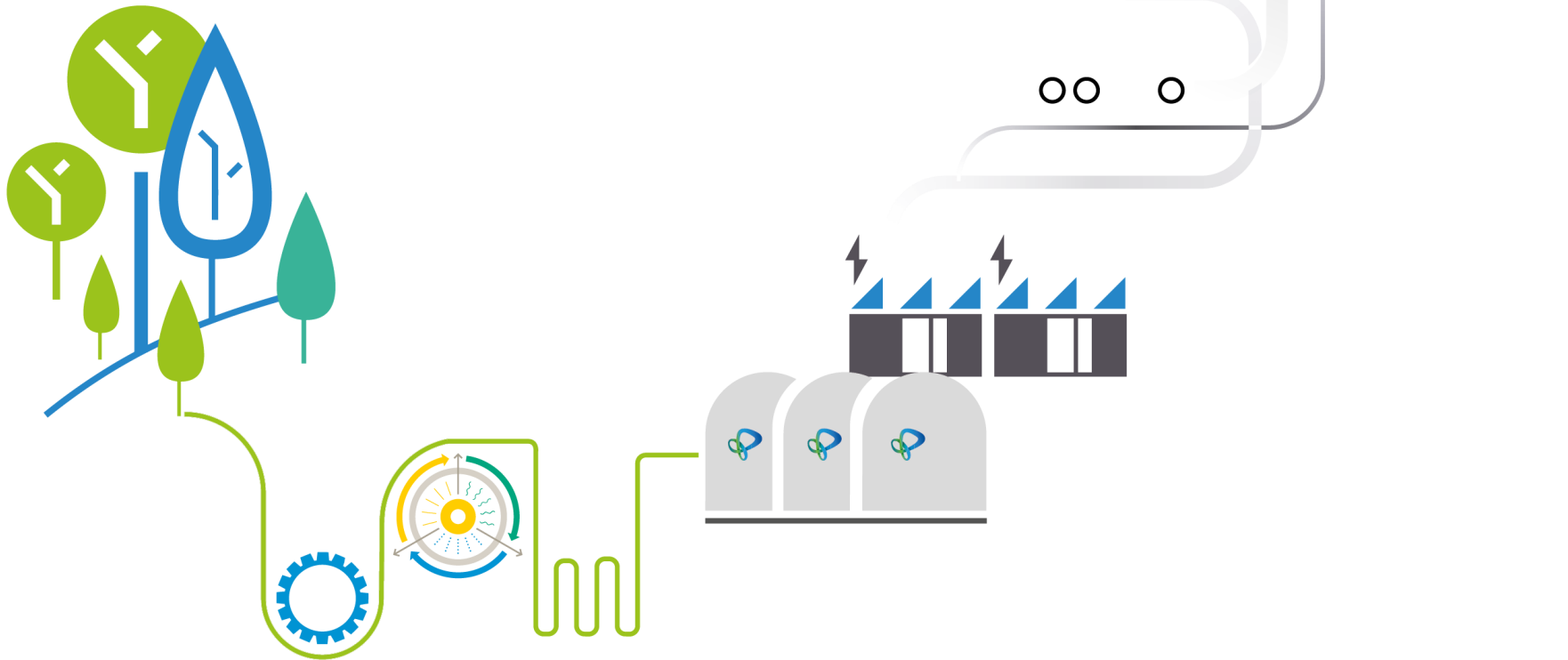
- Good operational performance in challenging markets
- CfD approved
- Launch of new strategy

2017

Growth in high quality earnings



Delivering the Strategy



Key Market Themes and Strategic Response

Dorothy Thompson – CEO

	Key market themes	Strategic response
Retail	<p>Increase in challenger brands</p> <p>Customer appetite for change</p> <p>Development of new products and services</p>	<p>Challenger brands – Opus and Haven</p> <p>Expansion of SME business and product offering</p>
Generation	<p>Increased importance of system support</p> <p>Closure of thermal generation – 11GW 2012-2016⁽¹⁾</p> <p>Growth of intermittent renewables</p>	<p>Diversified generation and capacity</p> <p>Flexible, reliable and responsive operations</p> <p>Rapid response gas projects</p>
Compressed wood pellets	<p>Near-term market weakness</p> <p>Emerging policy support for biomass outside UK</p>	<p>Target 20-30% biomass self-supply</p> <p>– Consider acquisition of distressed assets</p> <p>Investigate new market opportunities</p>
Strategic objective	<p>Higher quality diversified earnings, management of commodity market exposure</p> <p>Targeted long-term growth opportunities</p>	

2017 Priorities

Maintain operational excellence across base business

Opus Energy joining Drax Group

Continuity

- Continue to build challenger brand in SME market
- Operational management largely unchanged

Established integration team

- Embed leadership team into Drax Group structure

Other benefits

- Elimination of historic trading costs over time

Rapid response gas projects

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

- Two sites with principal permits, two in permit process

Evaluating potential opportunities for distressed pellet plant acquisitions



Energy 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

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

Further long-term opportunities post 2027



Appendices

1. Definitions
2. IAS 39 Treatment
3. Group Income Statement
4. Generation – Gross Profit
5. Retail – Gross Profit
6. Biomass Fuel and Supply – Gross Profit
7. ROC Reporting
8. Tax Reconciliation
9. Group Balance Sheet
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11. Contracted Power Sales
12. Power Markets
13. Gas Markets
14. Coal Markets
15. Carbon Markets
16. Forward Spread Movements
17. Commodity Price Movements
18. 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.
	AVERAGE ACHIEVED PRICE	Power revenues divided by volume of net sales (includes imbalance charges).
	BLACK START	The procedure to recover from a total or partial shutdown of the transmission system. This involves isolated power stations starting independently and reconnected to each other in order to form a system.
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.
COP21		The United Nations Framework Convention on Climate Change (UNFCCC) is an international environmental agreement on climate change. They are holding their 21st annual Conference of the Parties (COP) in Paris from November 30th to December 11th 2015. This Climate Conference is more commonly known as COP21.
CCL	CLIMATE CHANGE LEVY	A tax on electricity delivered to non domestic users, intended to encourage energy efficiency and reduced carbon emissions.
EBITDA		Profit before interest, tax, depreciation, amortisation and unrealised gains and losses on derivative contracts.
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.
IED	INDUSTRIAL EMISSIONS DIRECTIVE	
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	
LCPD	LARGE COMBUSTION PLANT DIRECTIVE	European Union Large Combustion Plant Directive sets emission standards for NO _x , SO ₂ and particulate from all Large Combustion Plant (>50MW).
LEC	LEVY EXEMPTION CERTIFICATE	Evidence of Climate Change Levy exempt electricity supplies generated from qualifying renewable sources.

Appendix 1: Definitions

Abbreviation	Name	Description
LTIR	LOST TIME INJURY RATE	The frequency rate calculated on the following basis (number of accidents/hours worked * 100,000). Accidents are defined as occurrences where the injured party is absent from work for more than 24 hours.
NERP	NATIONAL EMISSIONS REDUCTION PLAN	One of the mechanisms available to implement the LCPD and the one selected by Drax. This sets annual limits on the emissions of NO _x , SO ₂ and particulate which will be incorporated into the forthcoming PPC permit.
NO _x		Nitrogen oxides, emissions of which are regulated under the LCPD.
OCGT	OPEN CYCLE GAS TURBINE	
OFGEM	OFFICE FOR GAS AND ELECTRICITY MARKETS	
	ADVANTAGED FUELS	Fuel that gives a price advantage against standard bituminous coals. Such fuels include off specification coals and petcoke.
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	
SNCR	SELECTIVE NON CATALYTIC REDUCTION	Injection of urea into a units boiler to react with flue gases leading to a reduction in nitrogen oxides.
SBR	SUPPLEMENTAL BALANCING RESERVE	Contract with plant which would otherwise have closed, mothballed, or have been unavailable to the market and which can be called on by National Grid as a last resort after all commercial balancing actions have been taken.
SO ₂		Sulphur dioxide, emissions of which are regulated under the LCPD.
TRIR	TOTAL RECORDABLE INJURY RATE	TRIR is calculated on the following basis (lost time injuries + worse than first aid injuries) / hours worked * 100,000.
UK NAP	UK NATIONAL ALLOCATION PLAN	Allocation of UK emissions allowances at the national level to individual sites under EU ETS.

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	2016	2015	▲ %
Revenue	2,950	3,065	
Cost of sales	(2,574)	(2,656)	
Gross margin	376	409	
Operating costs	(236)	(240)	
EBITDA	140	169	(17)%
IAS39 unrealised gains on derivative contracts	177	124	
Depreciation	(113)	(108)	
Other items	-	(109)	
Operating profit	204	76	
Net finance cost	(7)	(17)	
Profit before tax	197	59	
Tax charge	(3)	(3)	
Reported earnings	194	56	
Underlying earnings	21	46	(54)%
Reported basic earnings per share (pence)	48	14	
Underlying basic earnings per share (pence)	5.0	11.3	(56)%
Total dividend per share (pence)	2.5	5.7	

Appendix 4: Generation – Gross Profit

In £m	2016	2015	▲ %
Revenue⁽¹⁾			
Power sales	1,876	2,163	
ROC sales	548	452	
CfD income	10	-	
Ancillary Services income	47	14	
Fuel sales	4	2	
Other income	6	7	
	2,491	2,638	(6)%
Cost of sales			
Generation fuel costs	(1,012)	(1,147)	
Fuel sold	(4)	(2)	
ROC support	526	505	
Carbon tax	(104)	(158)	
Cost of carbon allowances	(38)	(67)	
ROCs sold or utilised	(548)	(451)	
Cost of power purchases	(905)	(844)	
Grid charges	(69)	(84)	
	(2,154)	(2,248)	(4)%
Gross profit	337	390	(16)%

Appendix 5: Retail – Gross Profit

In £m	2016	2015	▲ %
Revenue	1,326	1,290	3%
Cost of sales			
Cost of power purchases	(689)	(710)	
Grid charges	(310)	(285)	
Other retail costs	(304)	(276)	
	(1,303)	(1,271)	3%
Gross profit	23	19	

Appendix 6: Biomass Fuel and Supply – Gross Profit

In £m	2016	2015	▲ %
Revenue			
Fuel sales	74	28	
	74	28	164%
Cost of sales			
Biomass	(56)	(27)	
Gross profit	18	1	1,700%

Appendix 7: ROC Reporting

ROC Assets	£m
At 31 December 2015	270
Generated	536
Utilised or sold	(548)
At 31 December 2016	258

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 8: Tax Reconciliation

In £m (unless otherwise stated)	Reported		Underlying	
	2016	2015	2016	2015
Profit before tax	197	59	21	44
Tax at UK CT rate	(39)	(12)	(4)	(8)
Adjustment to prior year taxes and other Items	36	9	4	10
Tax (charge) / credit	(3)	(3)	-	2
Effective tax rate	2%	5%	-	5%

UK corporation tax (CT) rates

20% for 2016 and 20.25% for 2015

2016 underlying tax rate

Underlying rate excludes after tax impact of unrealised gains and losses on derivative contracts and excludes one off tax credit arising on recognition of the tax value of US start up costs⁽¹⁾

Other items includes

- One off prior year R&D tax credits agreed with HMRC
- One time credit for UK tax rate change which reduces UK rate to 17% from 2020

Appendix 9: Group Balance Sheet

In £m	2016	2015	▲%
Non-current assets	2,198	1,959	
Current assets	1,469	1,278	
Current liabilities	(883)	(763)	
Non-current liabilities	(739)	(872)	
Net assets	2,045	1,602	33%
Shareholder's equity	(2,045)	(1,602)	

Appendix 10: Opus Energy Financial Summary

In £m	Year-end Mar-16	Year-end Mar-15	Year-end Mar-14
Revenues (£m)	573	524	434
<i>Year on year growth %</i>	<i>9%</i>	<i>21%</i>	
Gross profit (£m)	107	97	79
<i>Gross profit margin %</i>	<i>19%</i>	<i>19%</i>	<i>18%</i>
Operating and administrative expenses (£m)	73	59	49
EBITDA (£m)	34	38	30
Operating profit / EBIT (£m)	33	37	29
Cash from operations (£m)	34	32	28

Appendix 11: Contracted Power Sales

Contracted at 9 February 2017	2017	2018
Power sales (TWh)	17.8	7.0
- Fixed price power sales (TWh)	16.3	4.4
At an average achieved price (per MWh)	£45.0	£42.6
- Gas hedges (TWh)	1.5	2.6
At an achieved price per therm	46.7p	46.3p

Appendix 12: Power Markets

UK power market

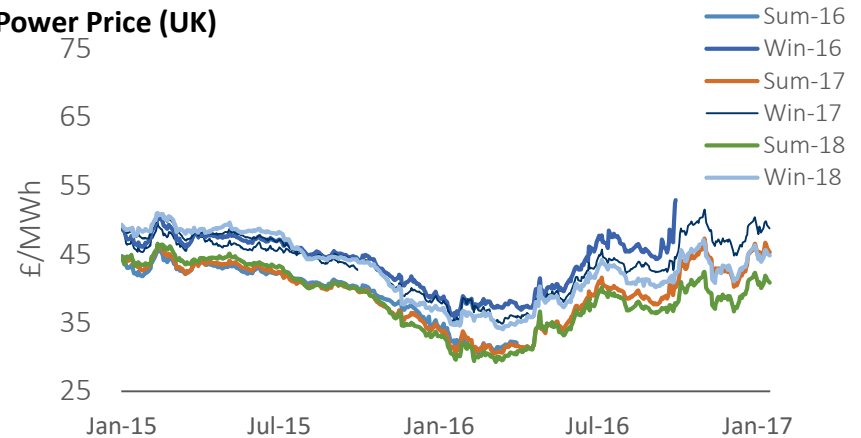
Some recovery in H2 2016, but remains challenging

- Stronger gas and expectations of winter capacity tightness

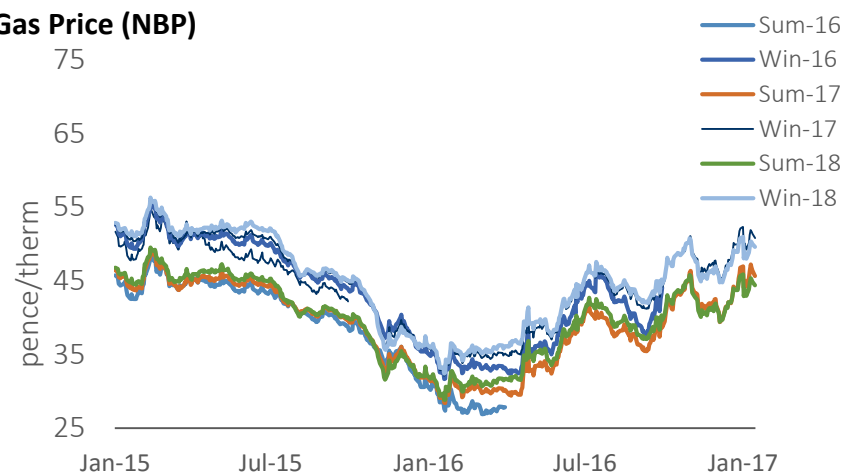
Dispatch dynamics

- Reduction in coal plant generation due to lower dark green spreads
- Introduction of Supplemental Balancing Reserve
- Rugeley, Ferrybridge and Longannet closed
- Growing wind and solar capacity
- Increase in balancing actions

Power Price (UK)



Gas Price (NBP)



Appendix 13: Gas Markets

Global gas

Delays to LNG projects supporting spot prices

French nuclear issues and cold weather in mainland Europe

Asia-Europe spread narrowed in 2016

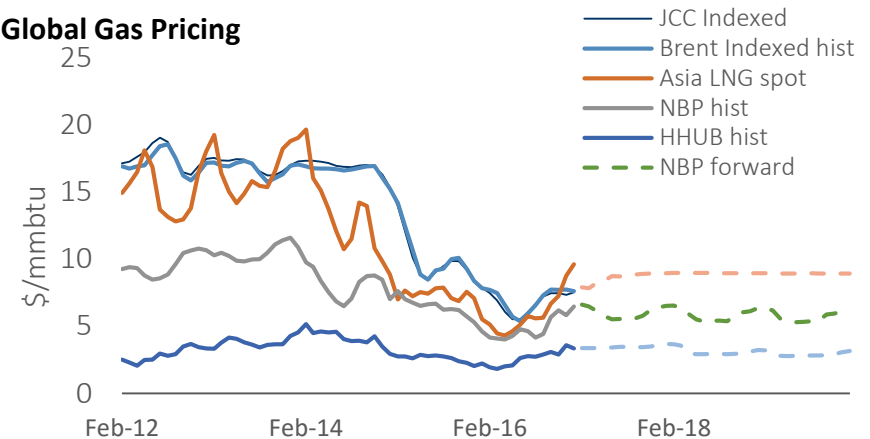
UK gas

Increased CCGT generation demand

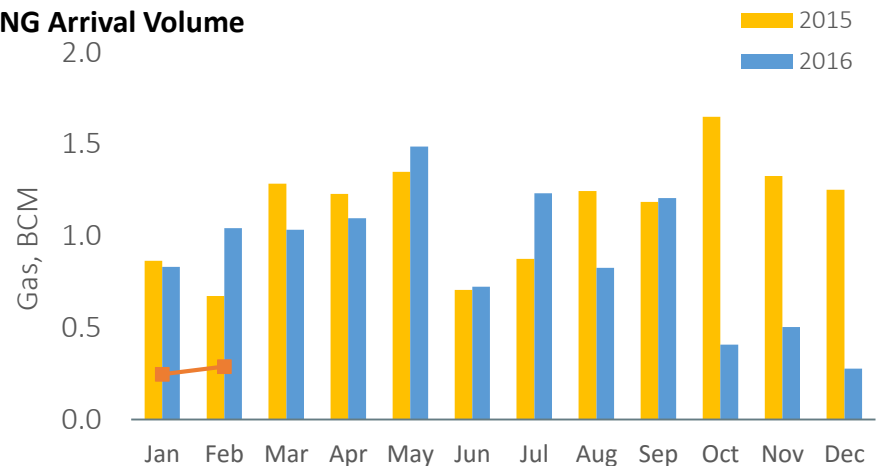
Rough storage issues

Low LNG deliveries during winter 2016

Global Gas Pricing



LNG Arrival Volume



Appendix 14: Coal Markets

UK coal production and demand falling

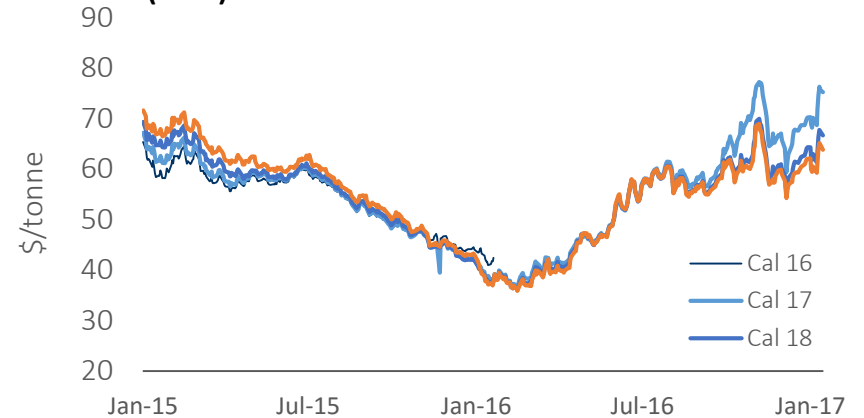
Reduced generation demand

Fall in net imports

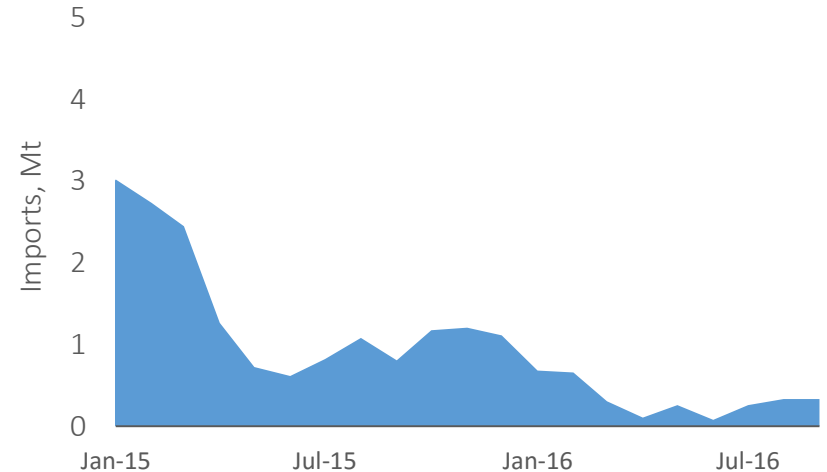
Global coal markets remains oversupplied

Chinese policy changes and imports driving global coal markets

Coal Prices (API2)



UK Steam Coal Imports



Appendix 15: Carbon Markets

Phase III EU ETS

Market remains over supplied

Auction volumes increasing in 2016

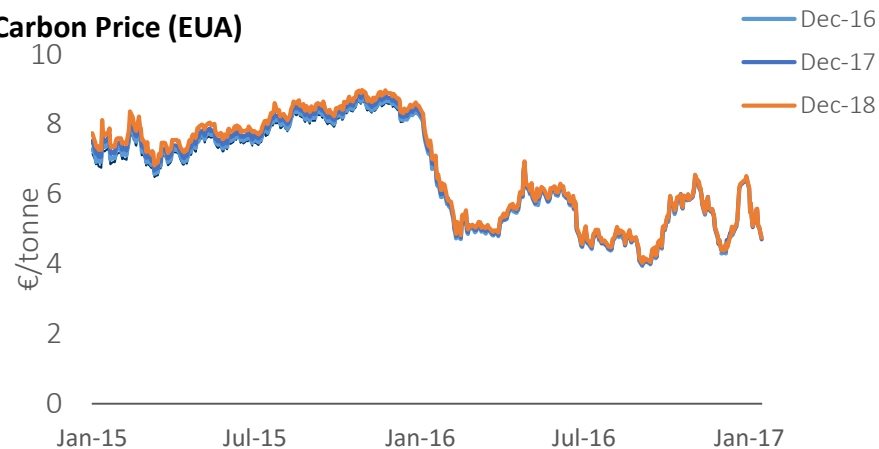
Price volatility around major political events

Phase IV EU ETS

Political work continues to reach agreement

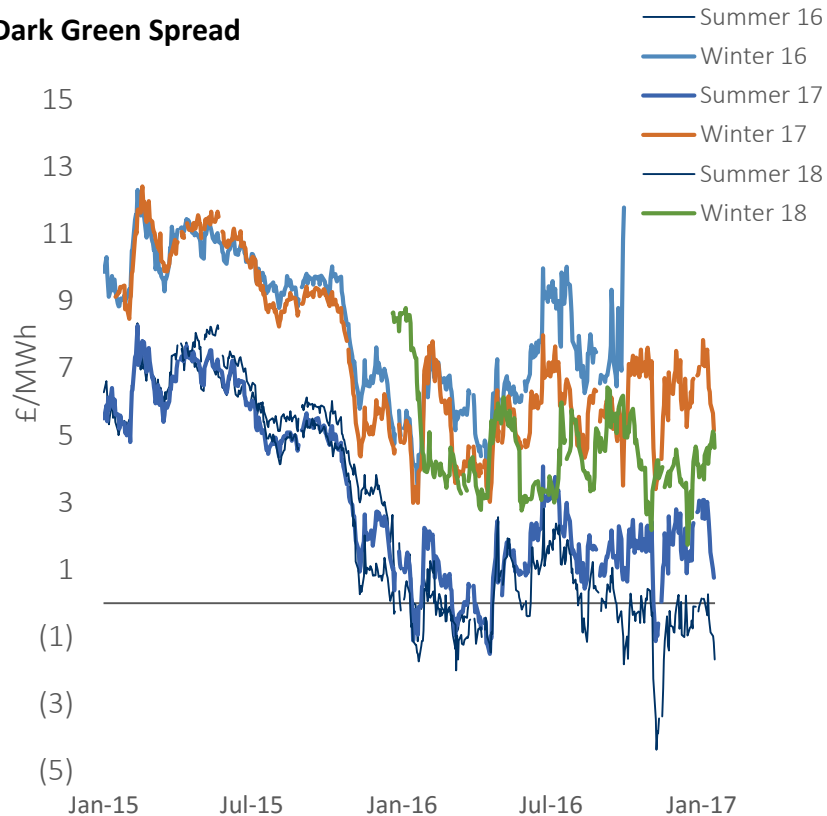
Post Brexit uncertainty over UK involvement

Carbon Price (EUA)

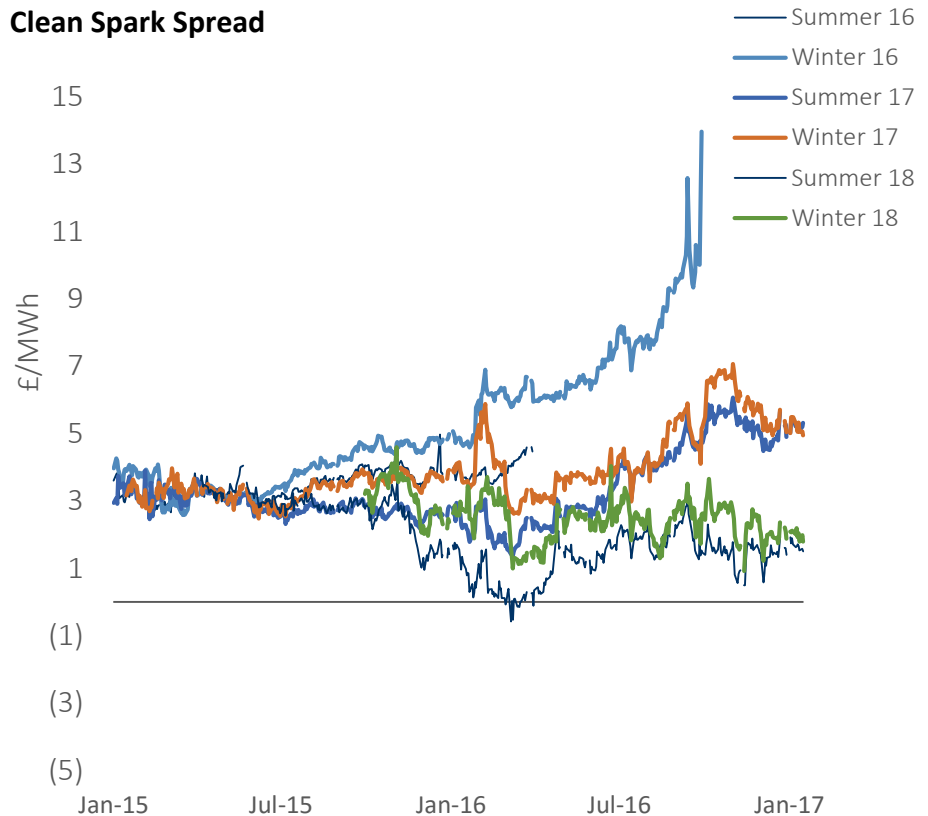


Appendix 16: Forward Spread Movements

Dark Green Spread

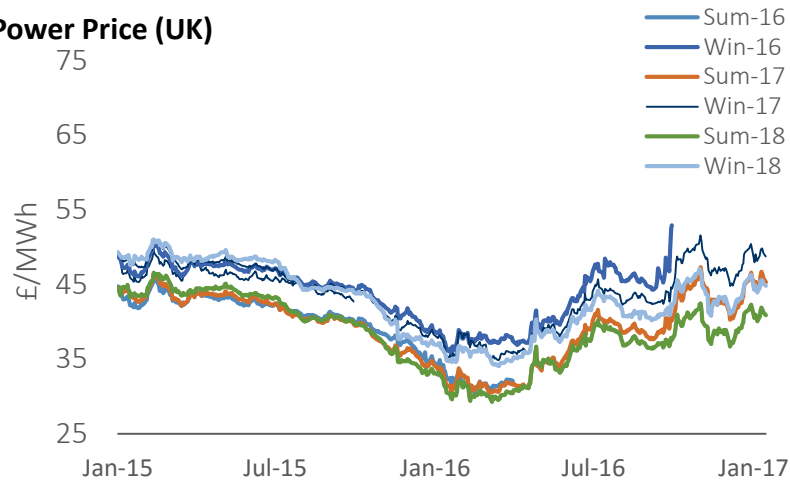


Clean Spark Spread



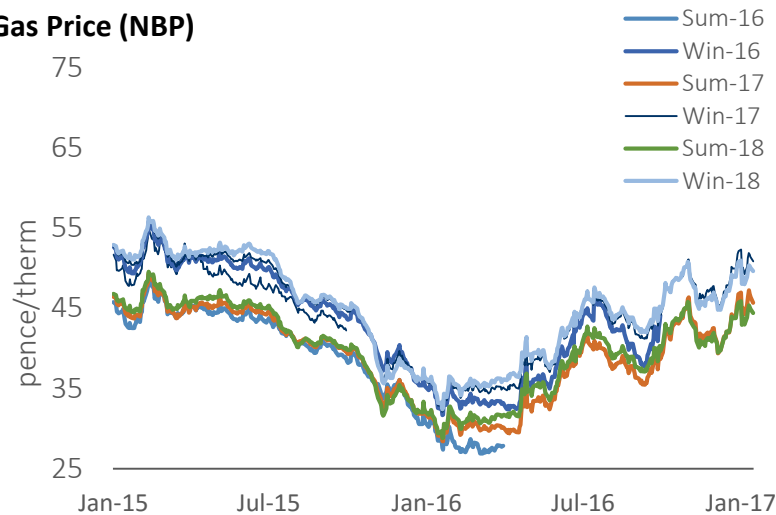
Appendix 17: Commodity Price Movements

Power Price (UK)



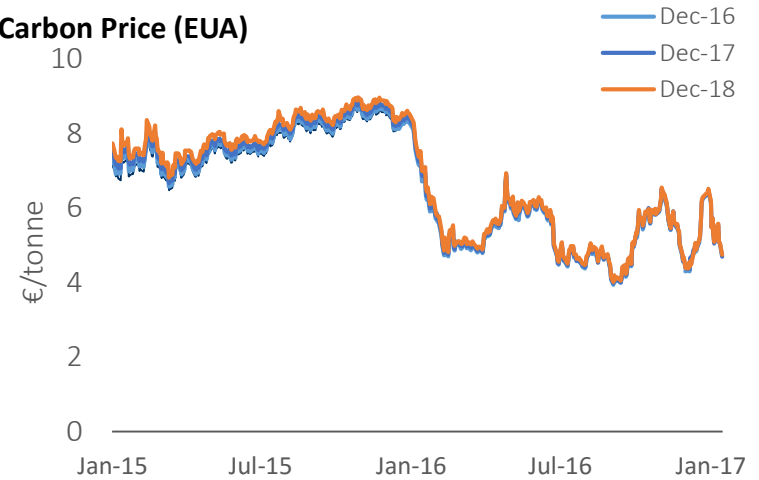
Source: Brokered Trades

Gas Price (NBP)



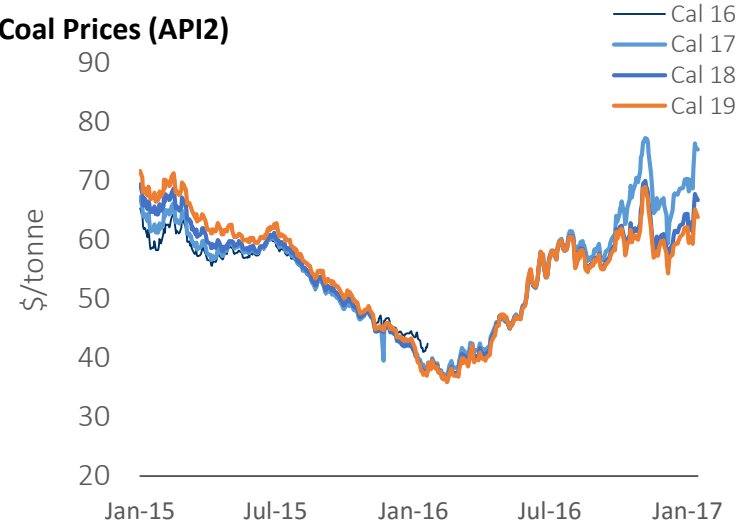
Source: Brokered Trades

Carbon Price (EUA)



Source: ICE

Coal Prices (API2)



Source: Brokered Trades

Prices as of 9 February 2017

Appendix 18: Coal Capacity and IED

Installation	Operator	Fuel	Installed Capacity (GWe)	Operational in 2017 (GWe)	Closure - Status	Supplementary Balancing Reserve	IED ⁽¹⁾ Decision
Rugeley	Engie	Coal	1.0	-	Closed summer 2016	-	TNP ⁽²⁾
Ferrybridge	Scottish & Southern Energy	Coal	2.0	-	Closed March 2016	-	LLD ⁽³⁾
Fiddlers Ferry	Scottish & Southern Energy	Coal	2.0	1.6	Three units cleared in the 2017 T-1 CM auction	1 unit in SBR - 422MW de-rated capacity for W16	TNP
Longannet	Scottish Power	Coal	2.3	-	Closed March 2016	-	TNP
Eggborough	EPL	Coal	1.9	1.0	All units cleared in the T-1 CM auction	681MW de-rated capacity for W16	LLD
Cottam	EDF Energy	Coal	2.0	2.0	-	-	TNP
West Burton	EDF Energy	Coal	2.0	2.0	-	-	TNP
Aberthaw	RWE npower	Coal	1.6	1.6	Indicated restricted operations and availability	-	TNP
Drax	Drax Power	Coal	2.0	2.0	-	-	TNP
Ratcliffe	E.ON UK	Coal	2.0	2.0	-	-	TNP
Total GWe			18.8	13.2			



16 February 2017

