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

Embrace change, be agile, keep it simple
Drax values – underpin everything we do
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)

**...offering higher quality and greater visibility**
(illustrative earnings)

Creating opportunities for scale in all areas
Pellet supply
Generation – existing and new
Retail

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\(^1\)
– 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\(^{th}\) 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\(^2\)

| £573m Revenues |
| £33m EBIT 6% Margin |
| 265K Customer Meters |
| 4.0TWh Electricity |
| 1.7TWh Gas |
| c.870\(^3\) Staff |

(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\(^{(1)}\)

**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

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\(^{(1)}\) 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

<table>
<thead>
<tr>
<th>Key Metrics</th>
<th>Haven YE Dec 2015</th>
<th>Opus YE Mar 2016</th>
<th>Proforma</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues (£m)</td>
<td>1,290</td>
<td>573</td>
<td>1,863</td>
</tr>
<tr>
<td>Gross Profit (£m)</td>
<td>19</td>
<td>107</td>
<td>126</td>
</tr>
<tr>
<td><em>Gross profit margin</em></td>
<td>1%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Customer Meters (000’s)</td>
<td>30</td>
<td>265</td>
<td>295</td>
</tr>
<tr>
<td>Power (TWh)</td>
<td>13.8</td>
<td>4.0</td>
<td>17.8</td>
</tr>
<tr>
<td>Gas (TWh)</td>
<td>-</td>
<td>1.7</td>
<td>1.7</td>
</tr>
<tr>
<td>Staff</td>
<td>c.400</td>
<td>c.870</td>
<td>c.1,270</td>
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</tbody>
</table>
## Attractive Financial & Growth Profile in the SME Market

Solid historic financial performance, proven growth and low capital intensity

### Financial Metrics

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

### Operational Metrics

<table>
<thead>
<tr>
<th></th>
<th>Mar-14</th>
<th>Mar-15</th>
<th>Mar-16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Meters (000's)</td>
<td>175</td>
<td>223</td>
<td>265</td>
</tr>
<tr>
<td><strong>Year on year growth %</strong></td>
<td>27%</td>
<td>19%</td>
<td></td>
</tr>
<tr>
<td>Power (TWh)</td>
<td>3.4</td>
<td>3.8</td>
<td>4.0</td>
</tr>
<tr>
<td>Gas (TWh)</td>
<td>0.8</td>
<td>1.2</td>
<td>1.7</td>
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(1) Reduction in 2016 reflects removal of Climate Change Levy Exemptions

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**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
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
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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