

Full Year Results

12 Months Ended 31 December 2017

27 February 2018



Agenda

Operations and business review

Will Gardiner, CEO

Financial review

Den Jones, Interim CFO

Delivering the strategy

Will Gardiner, CEO

2017 Summary

Excellent progress in delivering the strategy: continuing to transform the Group into an integrated low-carbon energy company

Strong financial and operational performance

Sustainable and growing dividend with return of capital to shareholders

Milestones

Strategic

Acquisition and on-boarding of Opus Energy

Acquisition and commissioning of LaSalle Bioenergy

Government support for fourth biomass unit

Development of options for new gas generation

Financial

64% increase in Group EBITDA and strong cash generation

Refinancing complete, supporting strategy

Net debt below target level

Sustainable and growing dividend

Initiating share buy back programme

Drax Group 2025 EBITDA in Excess of £425m

High quality growing earnings across all areas of operation

Pellet Production

At least 30% self-supply

EBITDA >£75m⁽¹⁾

B2B Energy Supply

Leading UK energy supplier

EBITDA >£80m⁽¹⁾

Power Generation

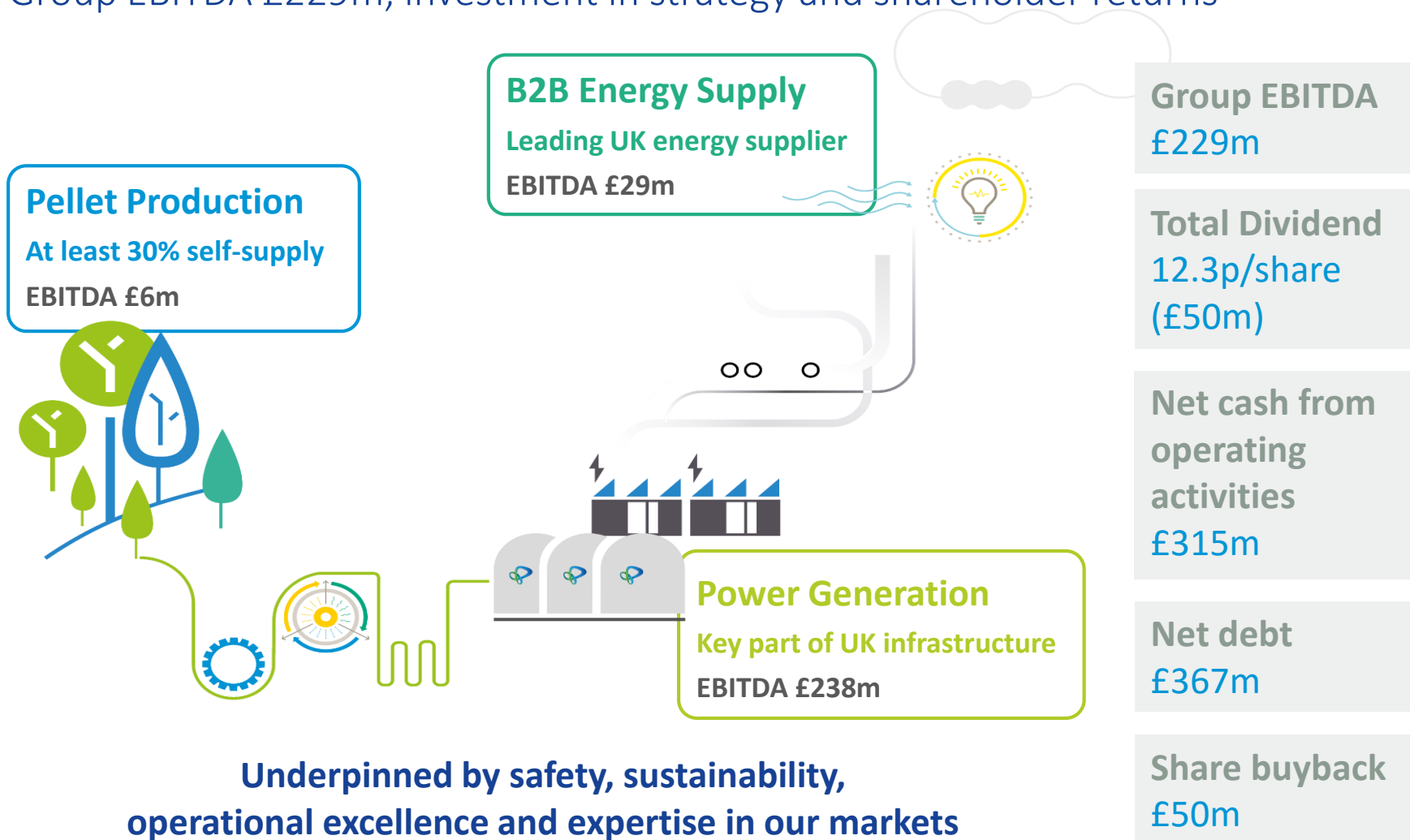
Key part of UK infrastructure

EBITDA >£300m⁽¹⁾

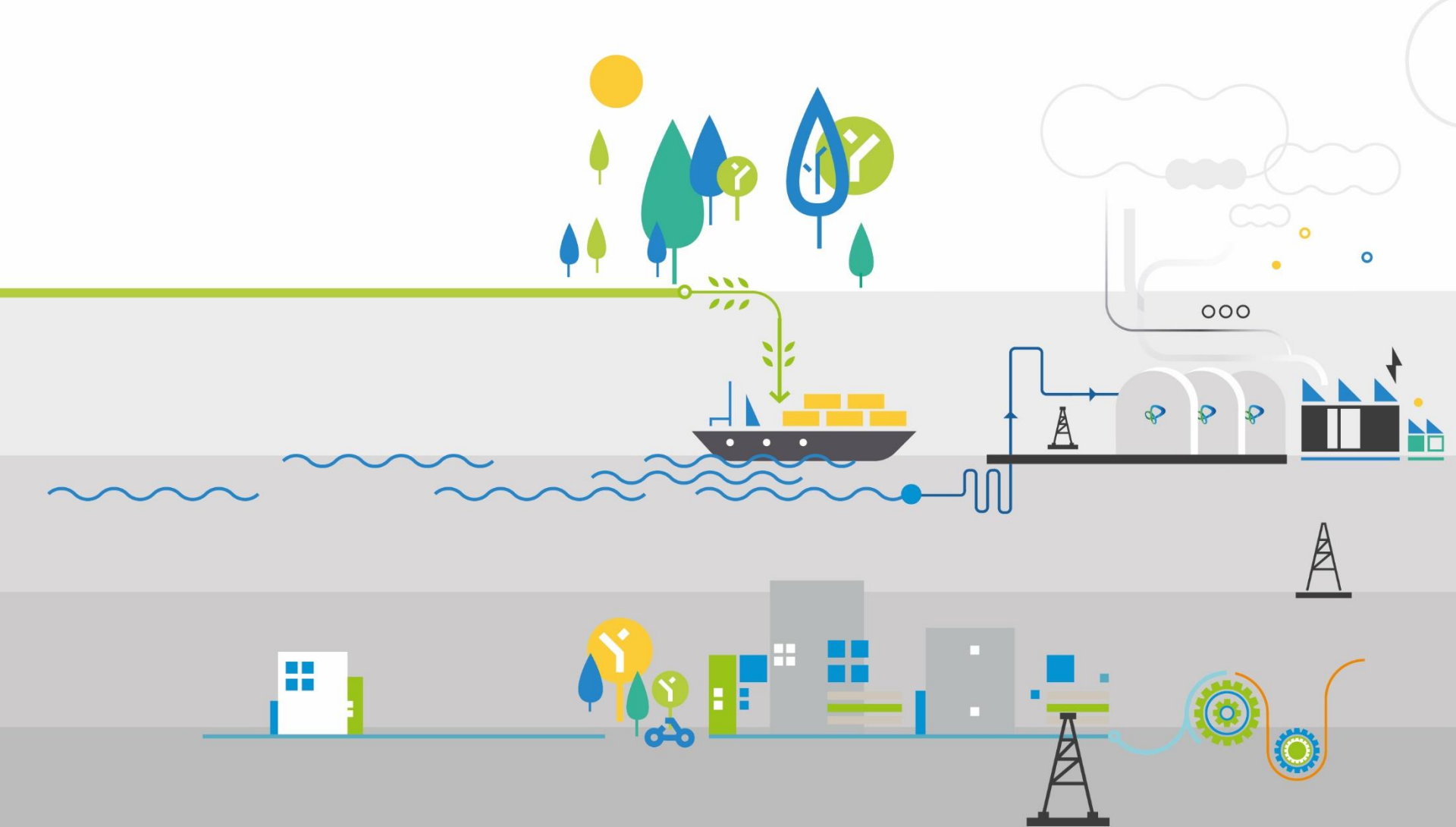
Underpinned by safety, sustainability,
operational excellence and expertise in our markets

Excellent Progress in 2017

Group EBITDA £229m, investment in strategy and shareholder returns



Operations and Business Review



Safety and Sustainability

Safety

Strong Group performance

Sustainability

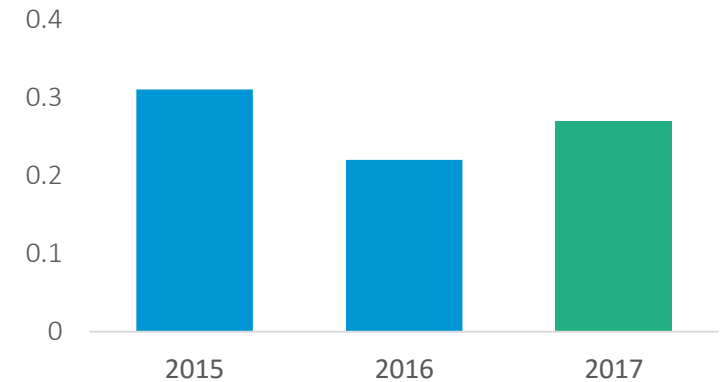
Biomass sustainability

- Proven carbon abatement⁽¹⁾
 - 86% saving versus coal
 - 64% saving versus gas
- Well established governance and audit process

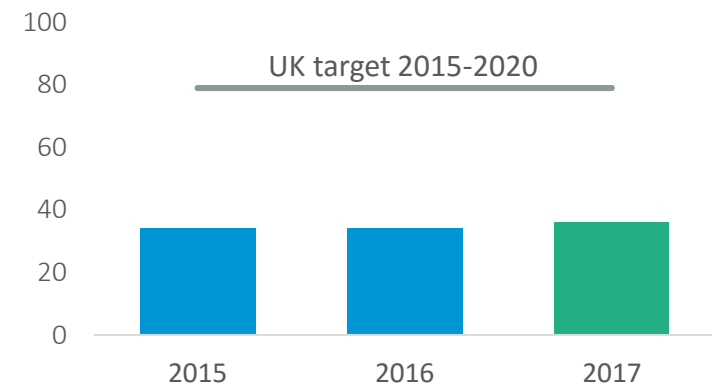
Strong corporate governance

- Member of UN Global Compact (UNGC)

Total Recordable Injury Rate



Carbon Life Cycle Emissions - CO₂-eq/MJ⁽²⁾



Pellet Production

Focus on good quality pellets at lowest cost

US operations performing well

£12m increase in EBITDA

35% growth in pellet production to 0.8m tonnes

- Producing nameplate capacity on consistent basis

Low cost expansion of Amite and Morehouse complete

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

Optimise locational benefits of assets

Provide supply chain flexibility

LaSalle Bioenergy

Commenced commissioning November 2017

Increase production through 2018

Evaluating opportunities for further capacity

EBITDA

£6m

(2016: £(6)m)

Pellets capacity, production and self-supply target (mt)



Power Generation

Large scale renewable and optimisation of generation assets

Strong financial performance

£64m increase in EBITDA

- Majority of revenues from long-term renewable power generation
 - 9% of Group revenues from coal power sales
- Fuel hedging supports cost stability
 - Long-term fuel contracts
 - Strong FX hedge to 2022
- £88m from system support and flexibility⁽¹⁾
- Capacity payments – £90m secured for 2017-2022

Strong operations

Reliable and responsive generation

Major planned outage on CfD unit successfully completed

Good response to unplanned outage in December 2017

- Optimised generation and supply chain to minimise impact

EBITDA

£238m

(2016: £174m)

Biomass
Generation

13.0TWh

(2016: 12.7TWh)

Total
Generation

20.0TWh

(2016: 19.6TWh)

Biomass Generation

65% of total generation

(2016: 65%)

B2B Energy Supply

Profitable business with growth in sales and customer meters

Good operational and financial performance

£33m increase in EBITDA

12% growth in customer meter points⁽¹⁾

46% of sales renewable⁽²⁾

Continued investment in next generation IT systems

- Platform for future growth, competitive advantage and efficiencies

Opus Energy

Delivering in line with plan

Haven Power

Exceeded EBITDA breakeven target

EBITDA

£29m

(2016: £(4)m)

Power Sales

18.1TWh

(2016: 14.6TWh)

Gas Sales

2.0TWh

(2016: N/A)

Customer Meters

375,000 (2016: 335,000)

Opus Energy

Utilities provider of the year⁽³⁾

Financial Review



Financial Highlights

Den Jones – Interim CFO

EBITDA

£229m

(2016: £140m)

Final Dividend

7.4p (£30m)

(2016 : 0.4p, £2m)

Net Cash From Operating Activities

£315m

(2016: £191m)

Underlying EPS⁽¹⁾

0.7p

(2016: 5.0p)

Total Dividend

12.3p (£50m)

(2016 : 2.5p, £11m)

Net Debt December 2017⁽²⁾

£367m

(December 2016: £93m)

Net Debt to EBITDA

1.6x

(December 2016: 0.7x)

Share Buy Back

£50m



Financial Review

Income statement	2017 £m	2016 £m
Revenue	3,685	2,950
EBITDA	229	140
Depreciation, amortisation and disposals	(182)	(113)
EBIT	47	27
Net finance cost ⁽¹⁾	(42)	(6)
Tax	(2)	-
Underlying profit after tax⁽²⁾	3	21

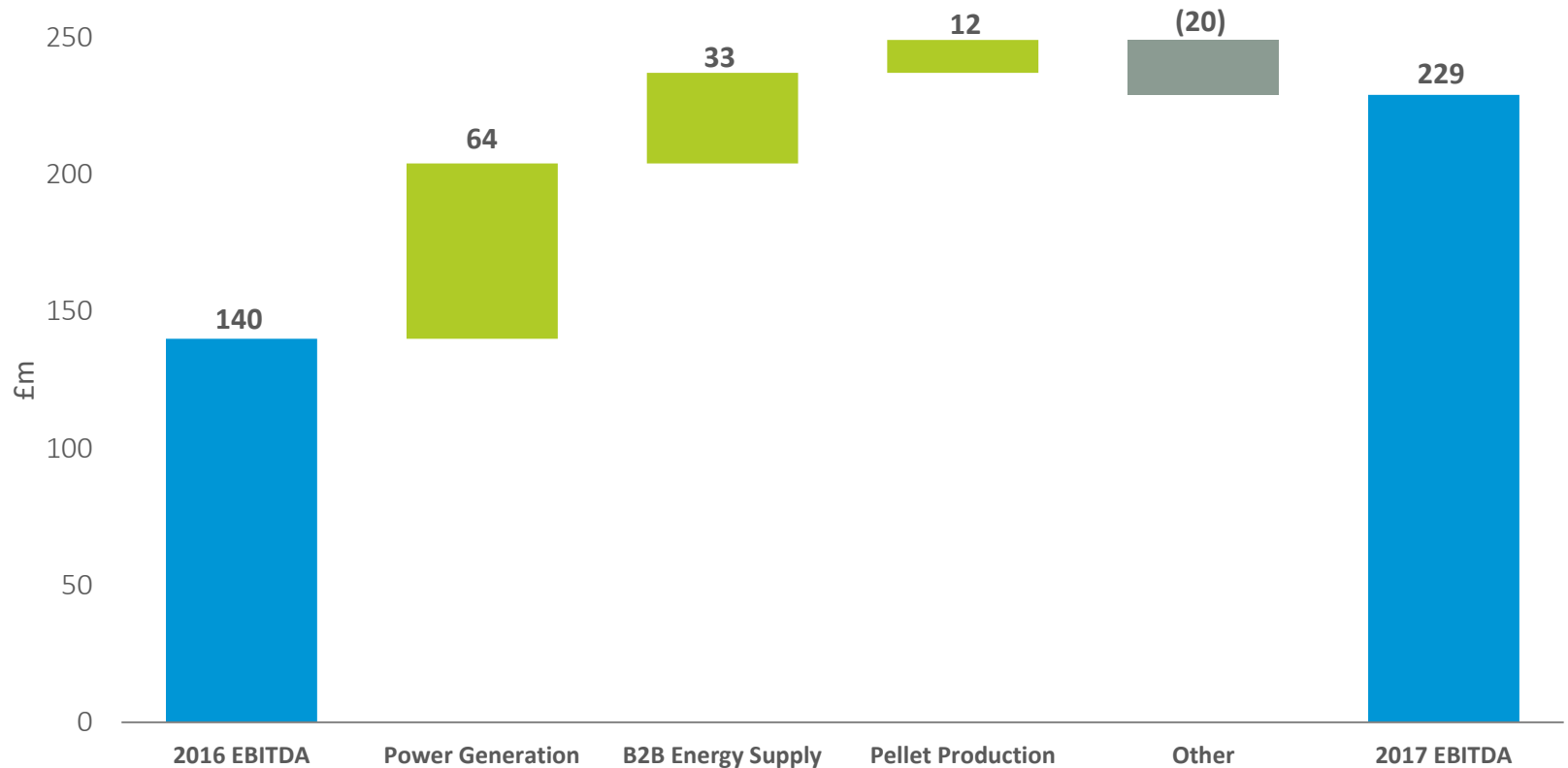
Cash and balance sheet	2017 £m	2016 £m
Net cash from operating activities	315	191
Net debt	(367)	(93)

14 | (1) 2017 net finance charge for underlying earnings excludes £24m of one-off finance costs associated with refinancing

(2) 2017 underlying earnings exclude unrealised losses on derivative contracts of £156m and material one-off items that do not reflect the underlying performance of the business (transaction and on-boarding costs of £8m and finance costs of £24m) (2016: unrealised gains of £177m)

EBITDA Bridge 2016 – 2017

Strong improvement in EBITDA in all areas of operation



Increasing Earnings Visibility

Reducing commodity exposure

Renewable power sales and support mechanisms

CfD revenues to 2027

ROC revenues to 2027

Associated power sales

Optimisation and system support

Balancing market, commercial buy-backs, ancillary services

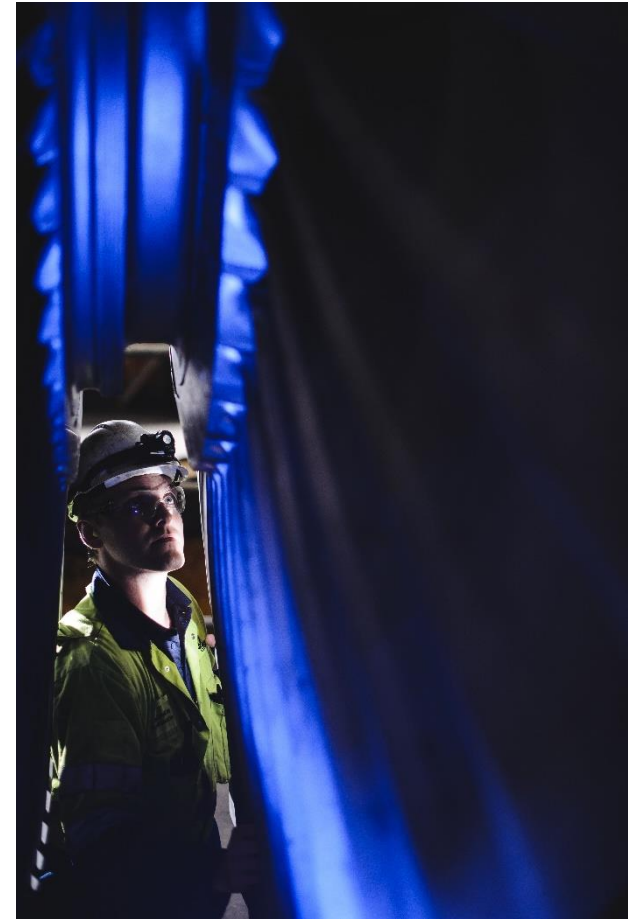
Capacity payments 2017-2022

Development of gas options

Underpinned by 15-year capacity agreement

Predictable and growing energy supply sales

Power, gas and value added services



Net Cash Flow

Strong cash generation

In £m	2017	2016
EBITDA	229	140
Working capital / other	147	63
Debt service	(47)	(21)
Tax	(14)	9
Net cash from operating activities	315	191
Capital investment – maintenance and improvement	(127)	(93)
Strategic investment		
- Acquisition of Opus Energy	(361)	-
- Acquisition and commissioning of LaSalle Bioenergy	(48)	-
- Acquisition of OCGT options	(19)	-
Net refinancing	257	-
Dividend	(22)	(11)
Other	(1)	8
Net cash flow	(6)	95

Working capital movement – £147m

ROCs – £112m

- Reduction in ROCs generated and held on balance sheet – transition from ROC to CfD support

Receivables – £61m

- Haven Power facility
- Lower power sales Dec-16 to Dec-17

Other - (£26m)

Investment – 2017

Maintenance	Maintain operational performance	£69m
Improvement	Increased pellet capacity at existing plants Information systems upgrade Opus Energy office consolidation Strategic spares U4 conversion trial Research & Innovation	£64m
Strategic	Acquisition of Opus Energy Acquisition and upgrade of LaSalle Bioenergy	£415m

Financial Structures in Place to Support Growth

Refinancing completed

Maintain credit rating

Supportive of trading strategy

Robust to low points in business cycle

Rating reiterated by S&P and Fitch

Working capital management

Commitment to capital discipline

2017 net debt /
EBITDA 1.6x

£550m high yield
bond

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

£350m RCF

2017 Summary

Strong financial performance

Growth in EBITDA and cash generation

Strong cost and cash management

Financial structure in place to support growth

Investment in strategy

Sustainable and growing dividend

Return of capital to shareholders



Delivering the Strategy



Changing UK Energy System

UK energy revolution

Transition to a low-carbon economy

First step is low-carbon power generation

Requires a more flexible electricity system

Ultimately low-carbon power will need to be economic without support

Beyond power, the low-carbon economy will require new energy solutions for transport and heating

Changing UK Energy System

Increasing need for ancillary services and system support

Change in generation mix

Coal, older gas and nuclear approaching end of operational life

Increase in intermittent renewables – wind and solar

Reduction in system support capability

Ancillary services traditionally provided by thermal plant

– Frequency, voltage control, back-up power and inertia

Capacity market

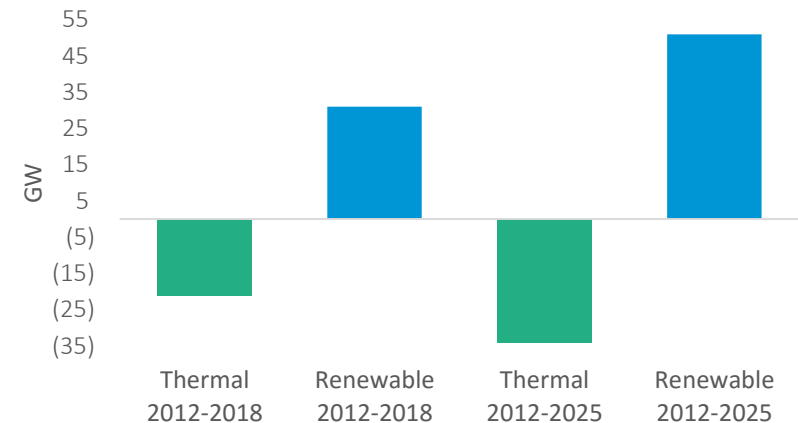
Favours low capex, low load factor

No significant new thermal plant

Increase in system volatility

Within five years corrective action may be required up to 60% of time⁽¹⁾

Change in Generation Capacity 2012 – 2025⁽²⁾



Service capability by asset type

Type	Generation		System support		
	Power	Renewable	Balancing	Prompt	Ancillary services
Biomass	✓	✓	✓	✓	✓
Wind	✓	✓	✗	✗	Some
Solar	✓	✓	✗	✗	✗
Coal	✓	✗	✓	✓	✓
Gas	✓	✗	✓	✓	✓
Nuclear	✓	✗	✗	✗	✓

Development of Options for a Coal-free Future

Flexible, low-carbon generation and system support

Fourth biomass unit

Supportive of Government energy policy

Low capital cost

Optimise generation across all ROC units

Open Cycle Gas Turbine

Four x 299MW developments

Two sites with permits – participation in next T-4 auction

Investment options progressed during 2017

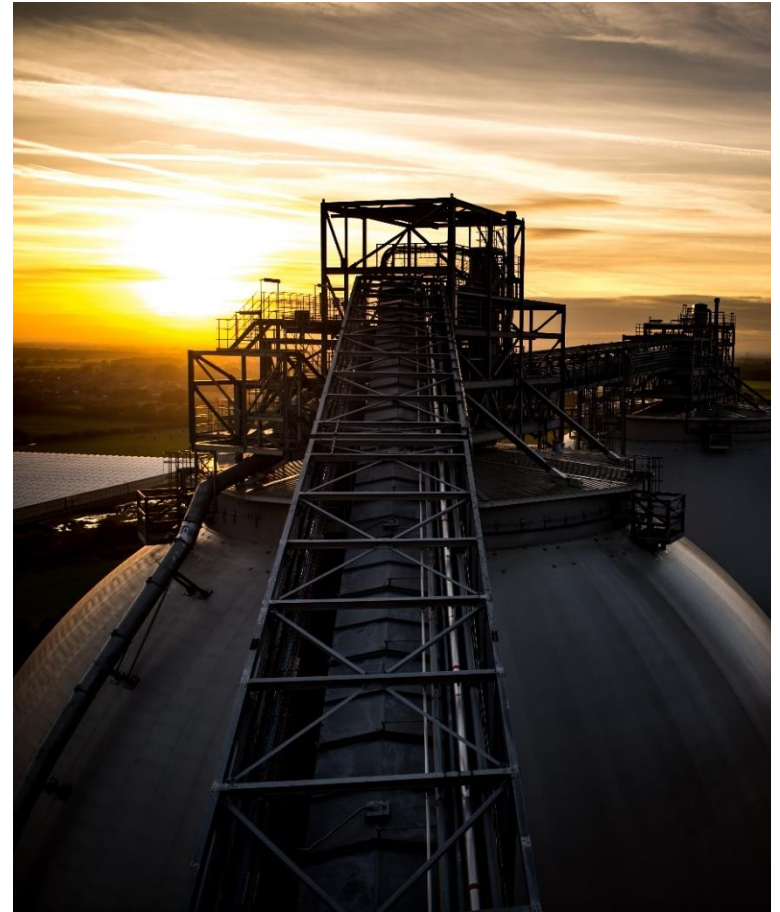
Investment subject to 15-year capacity agreements

Coal-to-gas repowering

Option to convert two coal units to gas

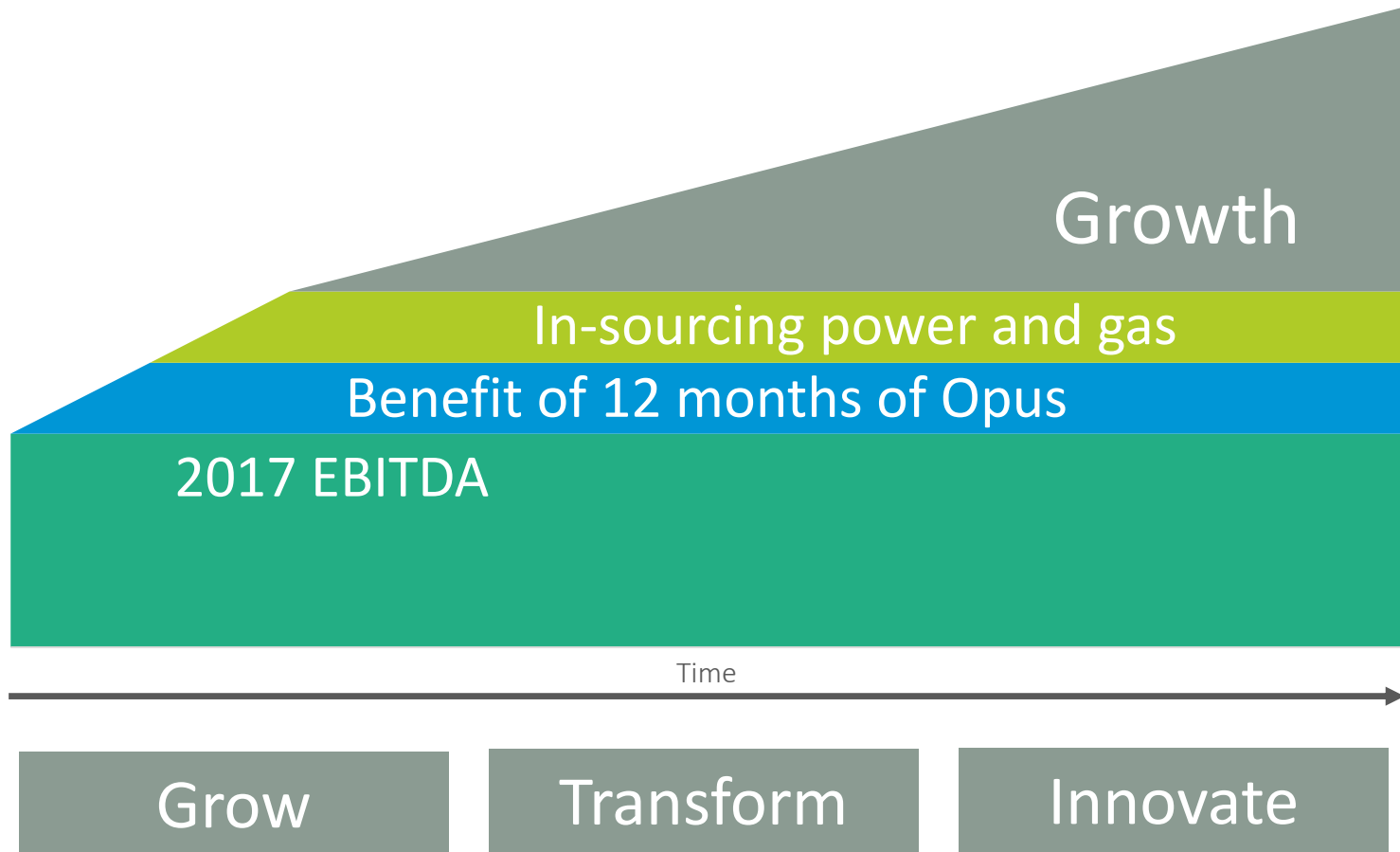
– Aligned with coal closure by 2025

Investment subject to 15-year capacity agreements



B2B Energy Supply

Growing to become the leading B2B supplier, differentiated from incumbents



Clear Capital Allocation Policy

Commitment to capital discipline

Maintain credit rating

Invest in core business activities

Pay a sustainable and growing dividend

Commitment to return capital to shareholders

2017 net debt /
EBITDA 1.6x

2017 full year
dividend of £50m

£50m share
buy back

Outlook

2018 priorities and outlook

Pellet Production

- Commissioning of LaSalle Bioenergy
- Development of options for optimisation and efficiencies
- Consistent production and quality of pellet

B2B Energy Supply

- Continued growth in customer meters
- Operational efficiencies and customer service
- Investment in systems to support growth and Smart compliance
- Development of value added services

Power Generation

- Reliable biomass generation
- Development of fourth biomass unit
- System support services
- Development of OCGT options
- Development of coal-to-gas option

Outlook

- Continued EBITDA growth
- Investment in strategy
- Commitment to capital and cost discipline
- Return of capital to shareholders

Appendices

1. Definitions
2. Strategy and Competitive Advantage
3. Drax Model Summary
4. Financial Assumptions
5. IAS 39 Treatment
6. Group Income Statement
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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.
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.
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: Strategy and Competitive Advantage

Area	Strategy	Competitive Advantage
Pellet Production	<ul style="list-style-type: none"> • Target at least 30% self-supply • Low cost good quality pellets 	<ul style="list-style-type: none"> • Expertise in US markets and logistics
Power Generation	<ul style="list-style-type: none"> • Expand to support low carbon future and provide system support 	<ul style="list-style-type: none"> • World leader in flexible renewable energy • Expertise in optimisation of power generation and commodity management
B2B Energy Supply	<ul style="list-style-type: none"> • Leading challenger brands • Innovative energy products • Grow to become leading B2B provider 	<ul style="list-style-type: none"> • Expertise in B2B markets • Platforms to support growth, innovation and flexibility • Renewable products and expertise
Drax Group	<ul style="list-style-type: none"> • Underlying growth in core business and cash generation • Attractive investment opportunities • Increasing earnings visibility, reducing commodity exposure • Strong balance sheet and clear capital allocation plan 	<ul style="list-style-type: none"> • Engineering and operational expertise • Integrated value chain – source, procure and manufacture biomass wood pellets; make renewable electricity and support UK electricity grid; sales to UK business customers • Logistics, operations and commodity risk management

Appendix 3: Drax Model Summary

Higher quality earnings, cash generation and growth

Strategic Objective		Higher quality earnings, reducing commodity exposure Targeted long-term growth opportunities across the Group			
		Current	Drax 2025		Other
Markets	Pellet Production	c.20% self-supply	>30% self-supply target	>£75m*	New markets Further optimisation
	Generation	1 baseload CfD unit	1 baseload CfD unit 4 x 300MW OCGT		Coal-to-gas repowering
		2 x ROC units System support services	3 x ROC units System support services	>£300m*	Further biomass generation Supply chain optimisation
		3 x coal units Capacity payments			Research and Innovation
	Energy Supply	Opus and Haven	Opus and Haven	>£80m*	Products, services, markets

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
- OCGT - £320-£360m
- Increase pellet self-supply
- Coal-to-gas repowering

Dividend policy

- £50m in 2017, expected to grow over time
- Affordable and sustainable
- Return surplus capital to shareholders

Appendix 4: Financial Assumptions

	2018
Investment – strategic	£30m
Investment – maintenance	£50-60m
Investment – improvement	£20-£30m
Central costs	£30m
Depreciation	£170m
Net interest	£30m
Tax	Just below UK CT rate
Net debt to EBITDA	Around 2x
Working capital	Small outflow
Base dividend	Update at 2018 interims

Appendix 5: IAS 39 Treatment

Financial Instrument	Location of gains and losses in the annual report
Power	Hedge Reserve
International coal	Income Statement
Financial coal	Hedge Reserve and 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 6: Group Income Statement

In £m	2017	2016	▲ %
Revenue	3,685	2,950	
Cost of sales	(3,140)	(2,574)	
Gross profit	545	376	
Operating costs	(316)	(236)	
EBITDA	229	140	64%
Unrealised (losses) / gains on derivative contracts	(156)	177	
Depreciation, amortisation and disposals	(182)	(113)	
Other items	(8)	-	
Operating (loss) / profit	(117)	204	
Net finance (cost) / credit	(66)	(7)	
(Loss) / profit before tax	(183)	197	
Tax credit / (charge)	32	(3)	
Reported (loss) / earnings	(151)	194	
Underlying earnings	3	21	(85)%
Reported basic (loss) / earnings per share (pence)	(37)	48	
Underlying basic earnings per share (pence)	0.7	5.0	(86)%
Total dividend per share (pence)	12.3	2.5	

Appendix 7: Group Underlying Earnings

In £m	2017	2016	▲%
Reported (loss) / earnings	(151)	194	
Unrealised losses / (gains) on derivative contracts	156	(177)	
Other items	8	-	
Cost of refinancing	24	-	
Tax impact of above adjustments	(34)	4	
Underlying earnings	3	21	(86)%

Appendix 8: Group Cash Flow Statement

In £m	2017	2016	▲ %
EBITDA	229	140	
Working capital / other	147	63	
Debt service	(47)	(21)	
Tax	(14)	9	
Net cash from operating activities	315	191	65%
Capital investment – maintenance and improvement	(127)	(93)	
Capital investment – strategic			
- Acquisition of Opus Energy	(361)	-	
- Acquisition and commissioning of LaSalle Bioenergy	(48)	-	
- Acquisition of OCGT options	(19)	-	
Net refinancing	257	-	
Dividend	(22)	(11)	
Other	(1)	8	
Net cash flow	(6)	95	
Cash and cash equivalents at the beginning of the period	228	134	
Net cash flow	(6)	94	
Cash and cash equivalents at the end of the period	222	228	

Appendix 9: Power Generation – Gross Profit

In £m	2017	2016	▲%
Revenue⁽¹⁾			
Power sales	1,789	1,876	
ROC sales	627	548	
CfD income	248	10	
Ancillary services income	31	47	
Fuel sales	8	4	
Other income	17	6	
	2,720	2,491	9%
Cost of sales			
Generation fuel costs	(1,100)	(1,012)	
Fuel sold	(7)	(4)	
ROC support	424	526	
Carbon tax	(101)	(104)	
Cost of carbon allowances	(33)	(38)	
ROCs sold or utilised	(590)	(548)	
Cost of power purchases	(852)	(905)	
Grid charges	(63)	(69)	
	(2,322)	(2,154)	8%
Gross profit	398	337	18%

Appendix 10: B2B Energy Supply – Gross Profit

In £m	2017	2016	▲ %
Revenue	1,999	1,326	51%
Cost of sales			
Cost of power and gas purchases	(884)	(689)	
Grid charges	(436)	(310)	
Other costs	(562)	(304)	
	(1,882)	(1,303)	44%
Gross profit	117	23	409%

Appendix 11: Pellet Production – Gross Profit

In £m	2017	2016	▲ %
Revenue	136	74	84%
Cost of sales	(97)	(56)	73%
Gross profit	39	18	217%

Appendix 12: Consolidated EBITDA

Consolidated EBITDA 2017

In £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment EBITDA	238	29	6	(10)	263
Central costs					(34)
Consolidated EBITDA					229

Consolidated EBITDA 2016

In £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment EBITDA	174	(4)	(6)	(2)	161
Central costs					(21)
Consolidated EBITDA					140

Appendix 13: ROC Reporting

ROC assets	In £m
At 1 January 2017	258
Generated	481
Utilised or sold	(624)
At 31 December 2017	146

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 14: Tax Reconciliation

In £m	Reported		Underlying	
	2017	2016	2017	2016
Profit / (loss) before tax	(183)	197	3	21
Tax at UK CT rate	35	(39)	(1)	(4)
Adjustment to prior year taxes and other Items	(3)	36	(1)	4
Tax (charge) / credit	32	(3)	(2)	-
Effective tax rate	18%	2%	40%	-

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

Adjustments to prior year taxes and other items

One-off non-cash charge (£16m) from the reduction in US federal tax rates from 35% to 21% following revaluation our deferred tax balances

Cash tax credit (£13m) from UK Patent Box tax regime, which rewards Drax patented innovation in biomass generation

Appendix 15: Group Balance Sheet

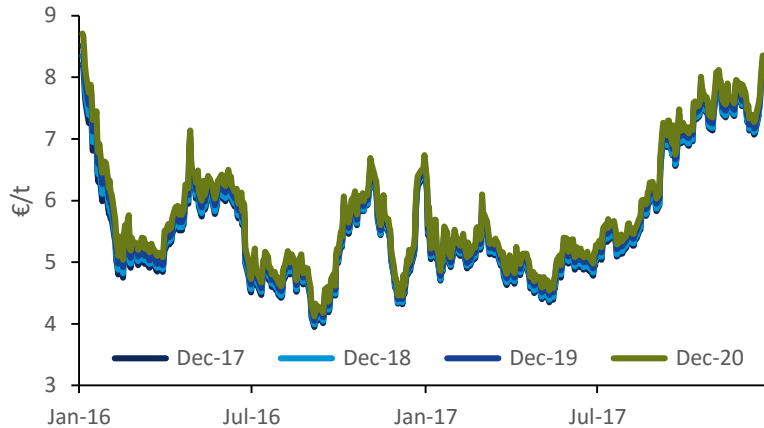
In £m	2017	2016	▲ %
Non-current assets	2,279	2,198	
Current assets	1,239	1,471	
Current liabilities	(865)	(885)	
Non-current liabilities	(933)	(739)	
Net assets	1,720	2,045	(16)%
Shareholders' equity	1,720	2,045	

Appendix 16: Contracted Power Sales

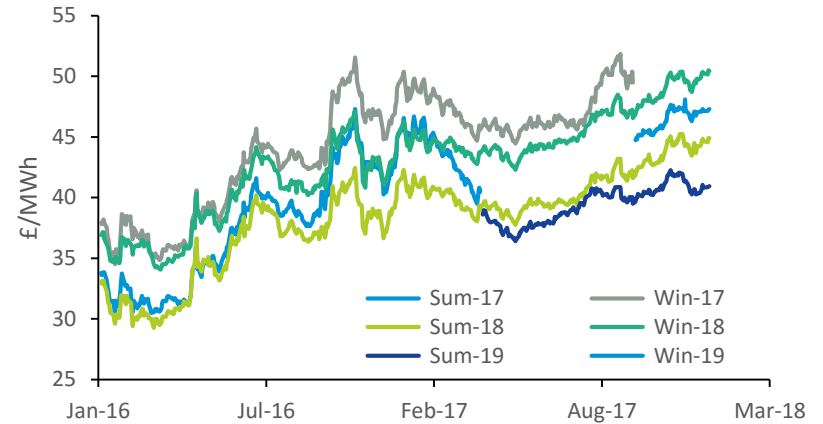
Contracted at 20 February 2018	2018	2019	2020
Power sales (TWh)	16.6	7.3	3.0
- Fixed price power sales (TWh)	15.9	6.0	2.2
At an average achieved price (per MWh)	£43.8	£43.1	£42.0
- Gas hedges (TWh)	0.6	1.4	0.8
At an achieved price per therm	41.3p	45.0p	48.0p

Appendix 17: Commodity Price Movements

EUA Carbon Price



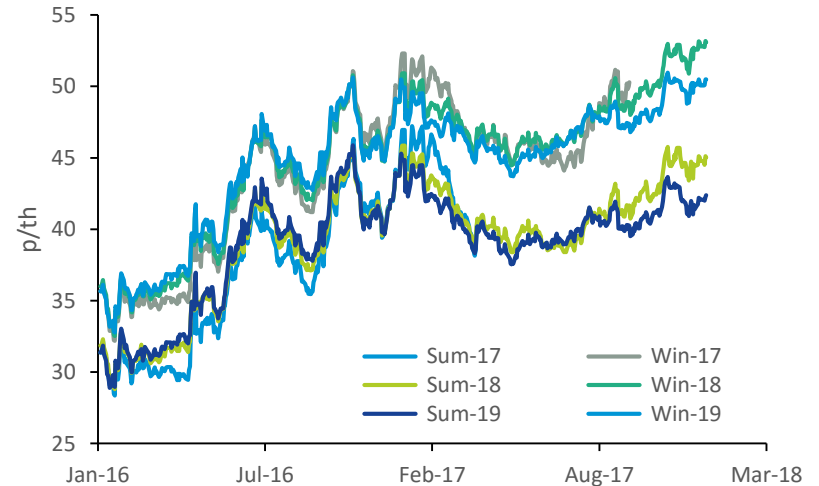
Power Price (UK)



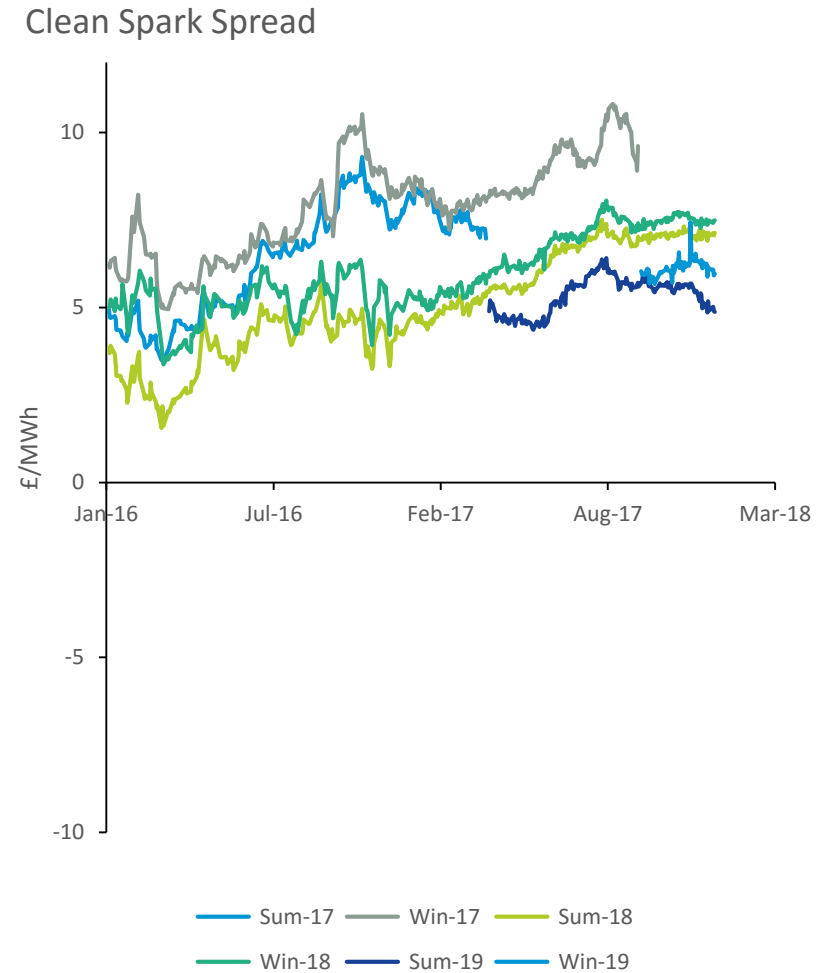
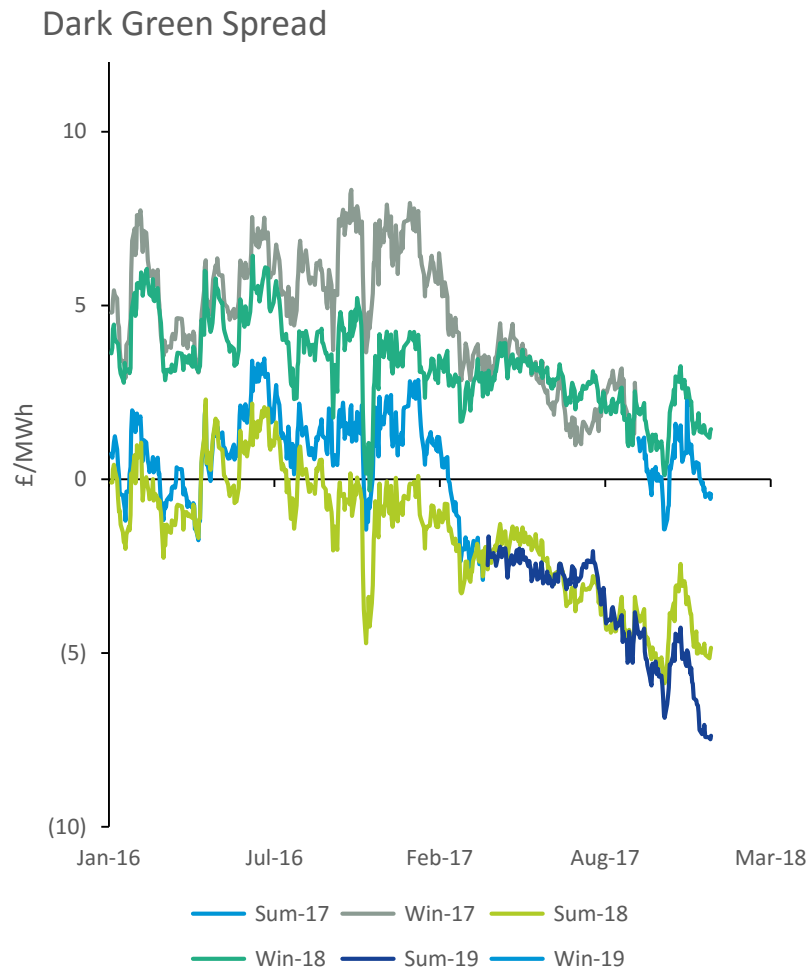
Coal Prices (API#2)



Gas Prices (NBP)

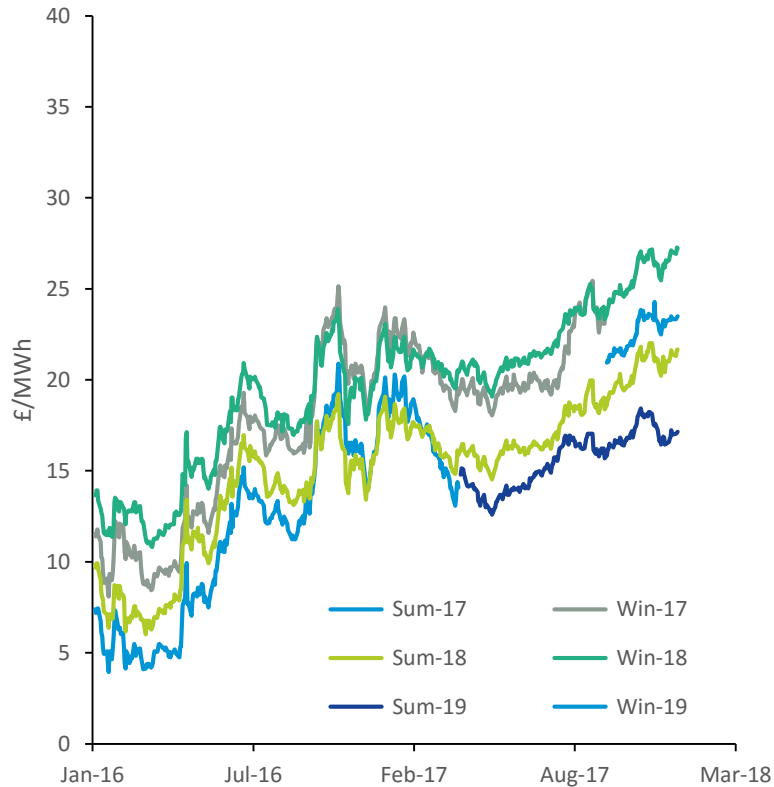


Appendix 18: Forward Spread Movements 1

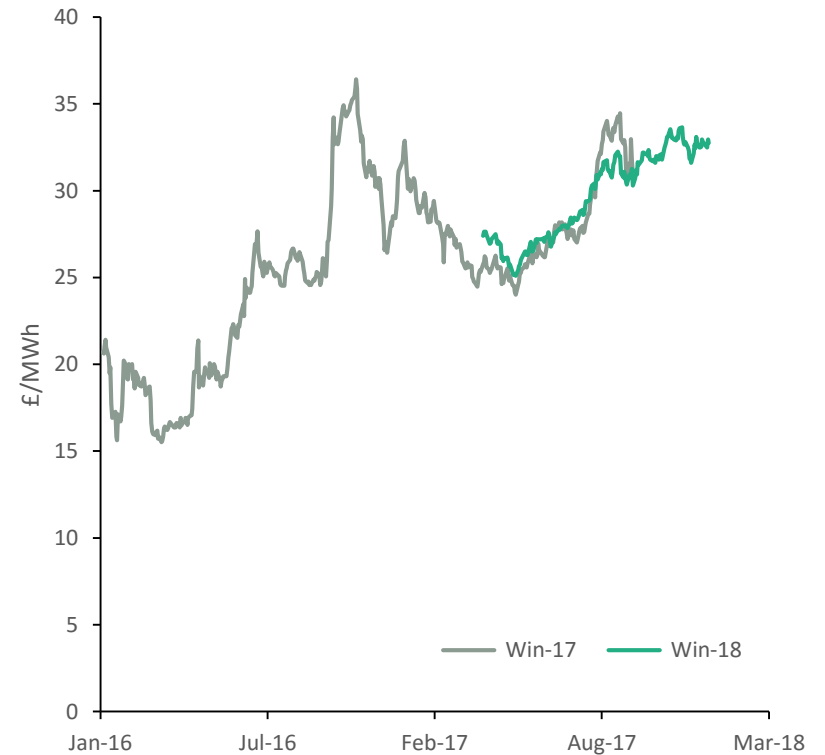


Appendix 19: Forward Spread Movements 2

Baseload RO Bark Spread



Peak RO Bark Spread



Appendix 20: 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⁾	21/22 CM ⁽⁴⁾
Fiddlers Ferry	SSE	Coal	2.0	TNP ⁽²⁾	Yes	Yes	No	No	No
Eggborough	EPH	Coal	1.9	LLD ⁽³⁾	Yes	No	No	No	No
Cottam	EDF Energy	Coal	2.0	TNP ⁽²⁾	Yes	Yes	No	No	No
West Burton	EDF Energy	Coal	2.0	TNP ⁽²⁾	Yes	Yes ⁽⁵⁾	No	Yes ⁽⁵⁾	No ⁽⁵⁾
Aberthaw	RWE npower	Coal	1.6	TNP ⁽²⁾	Yes	Yes	Yes	Yes	No
Drax	Drax Power	Coal	2.0	TNP ⁽²⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾	Yes ⁽⁶⁾
Ratcliffe	E.ON UK	Coal	2.0	TNP ⁽²⁾	Yes	Yes	Yes	Yes	Yes
Total GWe			13.5						

Full Year Results

12 Months Ended 31 December 2017

27 February 2018

