



# 2020 Full Year Results

25 February 2021

## **Agenda**

Operational Review

Financial Review

Biomass Strategy Update

## **Presenters**

Will Gardiner, CEO

Andy Skelton, CFO

# Forward Looking Statements

This announcement may contain certain statements, expectations, statistics, projections and other information that are or may be forward-looking. The accuracy and completeness of all such statements, including, without limitation, statements regarding the future financial position, strategy, projected costs, plans, beliefs and objectives for the management of future operations of Drax Group plc ("Drax") and its subsidiaries (the "Group"), including in respect of the proposed acquisition of Pinnacle Renewable Energy Inc. ("Pinnacle") and, (subject to and conditional upon shareholders approval and other material matters precedent to completion), thereafter the performance and integration of Pinnacle as part of Drax, together forming the enlarged business, are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that may occur in the future. Although Drax believes that the statements, expectations, statistics and projections and other information reflected in such statements are reasonable, they reflect the Company's current view and no assurance can be given that they will prove to be correct. Such events and statements involve risks and uncertainties. Actual results and outcomes may differ materially from those expressed or implied by those forward-looking statements. There are a number of factors, many of which are beyond the control of the Group, which could cause actual results and developments to differ materially from those expressed or implied by such forward-looking statements. These include, but are not limited to, factors such as: future revenues being lower than expected; increasing competitive pressures in the industry; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected. We do not intend to publicly update or revise these projections or other forward-looking statements to reflect events or circumstances after the date hereof, and we do not assume any responsibility for doing so.

## Our Purpose

Enabling a zero carbon, lower cost energy future

## Our Strategy

We will build a long-term future for sustainable biomass  
We will be the leading provider of power system stability  
We will give our customers control of their energy

## Our Ambition

To be a carbon negative company by 2030

# Operational Review

# 2020 Performance Highlights

Strong performance, delivering for stakeholders, progressing biomass strategy

## Financial

- Growth in Adjusted EBITDA inclusive of impact of Covid-19
- Strong balance sheet – 1.9x net debt to Adjusted EBITDA
- Sustainable and growing dividend – 7.5% recommended increase for 2020

## Operational

- Increased biomass production, improved quality, reduced cost
- UK's largest source of renewable electricity
- Strong system support performance

## Strategic

- Sale of gas generation (January 2021)
- End of commercial coal generation (March 2021)
- Development of long-term future for sustainable biomass, including BECCS
- Proposed acquisition of Pinnacle Renewable Energy Inc. (Pinnacle) (February 2021)



# Progress Towards a Carbon Negative Future



## Major decarbonisation since 2012

- Development of flexible, renewable biomass

### 2020

- Announcement of end of commercial coal generation

### 2021

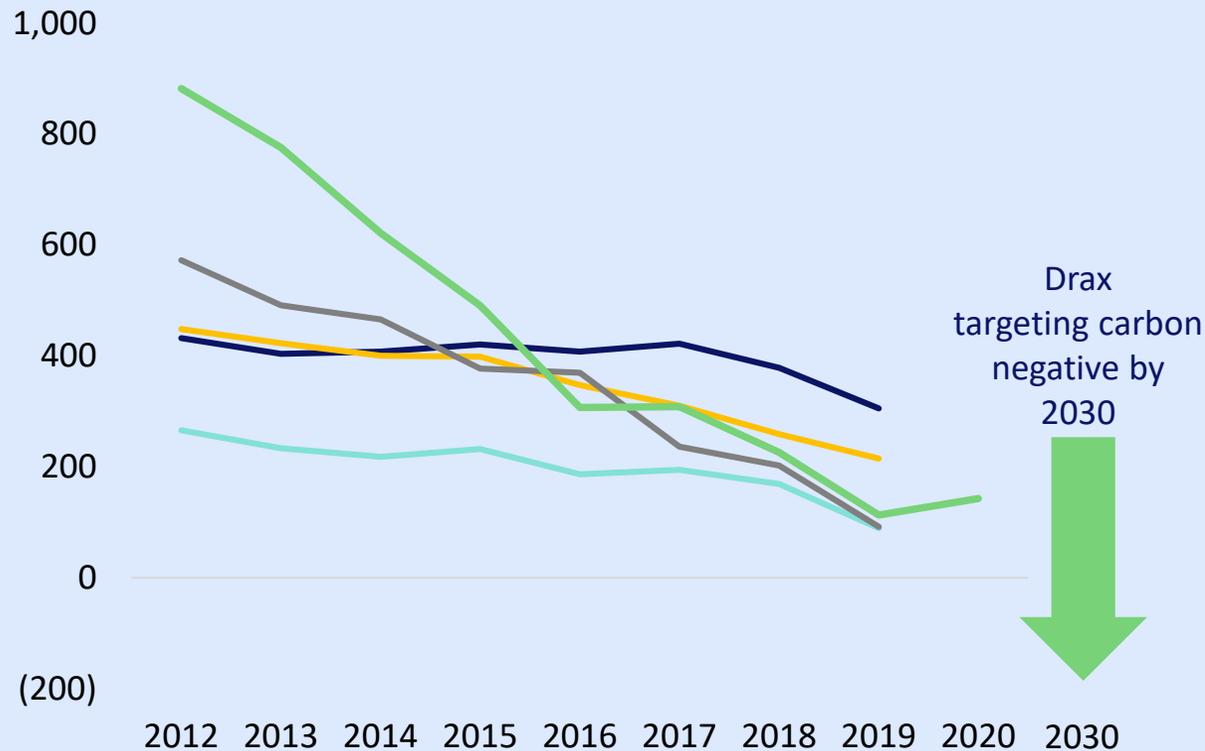
- Sale of CCGTs (January 2021)
- No new CCGT at Drax Power Station
- End of commercial coal generation (March 2021)

## Flexible and renewable generation portfolio (April 2021)

- Biomass, pumped storage and hydro portfolio

## Targeting carbon negative by 2030

European utility CO<sub>2</sub> intensity (tCO<sub>2</sub>/GWh)



Source: Bloomberg/Drax

Enel Engie Iberdrola Orsted Drax

# End of Coal Generation and Sale of CCGTs

Key milestones in the path to becoming a carbon negative company – decisions aligned with UK's 2050 net zero objective

## End of commercial coal generation (March 2021)

- Completion of Capacity Market agreements (September 2022)
- Asset obsolescence charge – £226m
- Cost of closure – £34m
- Ongoing opex savings >£30m pa when complete
- Supports progress towards profitable biomass generation post 2027

## Gas – generation

- Completion of sale of CCGTs (January 2021)
- No new CCGT at Drax Power Station – £13m asset obsolescence charge

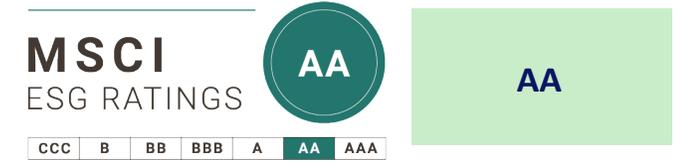
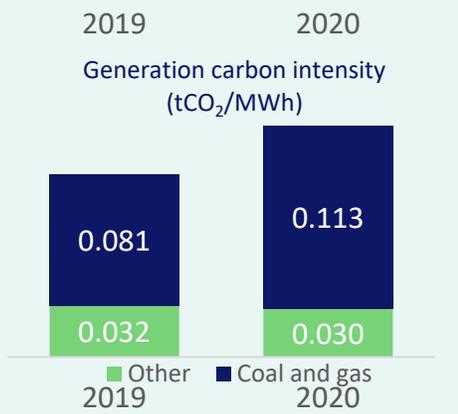
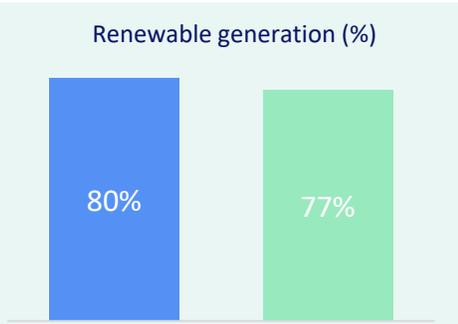
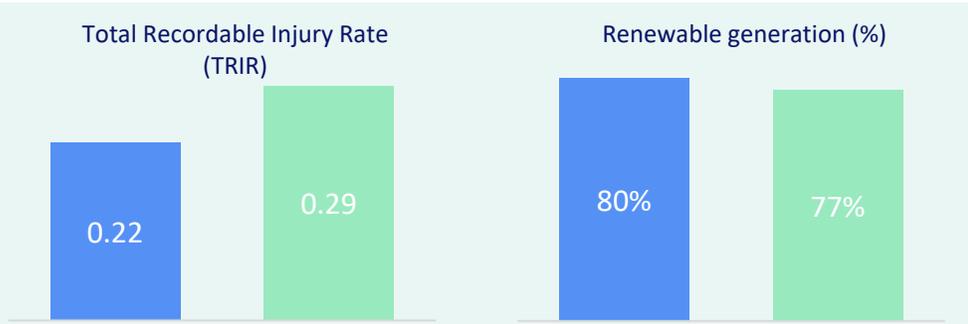
## Retain options for new system support assets

- Gas peaking plants (OCGTs) pre-qualified for T-4 capacity auction (March 2021)



# Safety and Sustainability

Achieving a positive long-term economic, social and environment impact



# Generation

UK's largest source of renewable power

## 9% increase in Adjusted EBITDA<sup>(1)</sup>

- Increased biomass generation

## Strong operational performance

- High level of portfolio availability

## Strong performance in system support market

- Pumped storage, hydro and gas
- Biomass generation prioritised over system support activity

## High proportion of non-commodity related earnings

- Renewables, system support and Capacity Market payments
- Strong contracted power position 2021-2023

## End of commercial coal generation

- Utilisation of residual coal stock

Adjusted EBITDA<sup>(1)</sup>  
**£446m**  
(2019: £408m)

System support<sup>(2)</sup>  
**£118m**  
(2019: £120m)

% of UK  
renewables  
**11%**<sup>(3)</sup>  
(Q4 2018 to Q1  
2019: 12%)

Portfolio  
availability<sup>(4)</sup>  
**91%**  
(2019: 88%)

Biomass  
generation  
**14.1TWh**  
(2019: 13.4TWh)

Hydro  
generation<sup>(5)</sup>  
**0.7TWh**  
(2019: 0.5TWh)

Gas  
generation  
**2.8TWh**  
(2019: 2.9TWh)

Coal  
generation  
**1.6TWh**  
(2019: 0.6TWh)

CO<sub>2</sub> intensity  
**0.143t/MWh**  
(2019: 0.113t/MWh)

1) Includes £46m of discontinued operations – gas (2019: £39m)  
2) Balancing mechanism, Ancillary Services and portfolio optimisation  
3) Q4 2019 to Q3 2020  
4) Availability of each generation asset weighted by EBITDA contribution  
5) Gross output from pumped storage and hydro schemes

# Trading and Optimisation

Forward power sales provide revenue visibility, while retaining flexibility to provide system support services

## Strong contracted power sales for Generation 2021-2023

- 24.4TWh contracted at £48.5/MWh

## Strong contracted biomass supply through 2026

- Self-supply and third-party contracts
- Rolling five-year FX hedge protects from adverse currency movements

## Contracted Generation power position

Contracted Power at 19 February 2021	2021	2022	2023
<b>Fixed price power sales (TWh)</b>	<b>14.4</b>	<b>7.1</b>	<b>2.9</b>
-Biomass	13.0	7.0	2.9
-Hydro	0.3	0.1	-
-Thermal (Q1 2020)	1.1	-	-
<b>At an average achieved price (£ per MWh)</b>	<b>48.6</b>	<b>48.3</b>	<b>48.6</b>

## 2020 system support performance ahead of Drax expectations

- 2019 included specific non-recurring contracts and coal buy back
- H1 2020 – additional system balancing actions required to manage lower demand and high levels of intermittent renewables
- H2 2020 – increased demand and periods of scarcity pricing

## System support and optimisation (£m)



# Pellet Production

63% increase in Adjusted EBITDA – increased production, improved quality, reduced costs

## Strong operational performance

- 7% increase in production
- Improved quality
- 5% reduction in \$/tonne cost

## Programme of cost reduction and increased self-supply

- Low-cost fibre and enhancements of existing facilities
- \$28m pa of annual savings by end of 2020 (versus 2018)
- Morehouse expansion (0.1Mt) commissioned Q4 2020

## Developments 2021 – 2022

- Low-cost fibre and improved logistics
- LaSalle and Amite expansions (0.3Mt) and satellites (0.1Mt)

## Continuing to evaluate opportunities to widen fuel envelope

Adjusted EBITDA  
**£52m**  
(2019: £32m)

Pellet production  
**1.5Mt**  
(2019: 1.4Mt)

Production cost  
**\$153/t<sup>(1)</sup>**  
(2019: \$161/t)



1) Cost of production in US biomass self-supply business – raw fibre, processing into a wood pellet, delivery to port of Baton Rouge and loading to vessel for shipment to UK and overheads – Free on Board (FOB) 12  
Cost of ocean freight, UK port and rail cost reflected in UK generation business accounts in addition to price paid to US business for the wood pellet

# Customers

Supporting customers, managing impact of Covid-19, focus on underlying strength in portfolio

## Principal impact of Covid-19 (c.£60m) reflected in SME business

- Reduction in demand
- MtM cost in selling back hedged commodity positions
- Increased bad debt provisions

## Development of Drax Customer I&C portfolio

- High-quality, low-risk and long-term portfolio
- Significant growth in contracted sales, including utilities and blue chips

## Renewables and energy services aligned with Drax purpose

- Helping customers meet sustainability objectives
- Route to market for over 2,000 small renewable generators
- System support services – demand-side management

## SME portfolio

- Established portfolio with high renewal rates
- Focused on value over volume through credit vetting approach
- Continue to evaluate options to maximise value going forward

Adjusted EBITDA  
**£(39)m**  
(2019: £17m)

Bad debt  
**£43m**  
(2019: £18m)

Power sales  
**14.7TWh**  
(2019: 15.9TWh)

Gas sales  
**2.8TWh**  
(2019: 3.0TWh)

**Significant growth in contracted I&C power sales**

Total contracted I&C power sales (20 Feb 2021)  
**29.4TWh**  
(20 February 2020: 25.1TWh)

# Financial Review

# Financial Summary

Strong financial performance

**Adjusted  
EBITDA<sup>(1/2)</sup>**

**£412m**

(2019: £410m)

**Cash Generated from  
Operations**

**£413m**

(2019: £471m)

**Net Debt  
December 2020<sup>(3)</sup>**

**£776m**

(December 2019: £841m)

**1.9x Net Debt  
to Adjusted EBITDA**

(December 2019: 2.1x)

**Proposed Final Dividend  
10.3p/share (£41m)**

(2019: 9.5p/share, £37m)

**Total Dividend  
17.1p/share (£68m)**

(2019: 15.9p/share, £63m)

**Adjusted Basic Earnings  
Per Share<sup>(1)</sup>**

**29.6p/share<sup>(2/4)</sup>**

(2019: 29.9p/share)

1) Adjusted results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain derivative financial instruments fair value remeasurements

2) Includes £46m of discontinued gas operations (2019: £39m)

3) Cash and short-term investments of £290m less borrowings of £1,066m

4) Includes £14m (3.5p/share) reduced valuation of deferred tax asset resulting from UK Government's reversal of previously announced corporation tax rate changes

# Development of Biomass Self-supply to Expand Capacity and Reduce Cost

Plans for existing capacity run-rate savings of \$64m (\$35/t, £13/MWh<sup>(1)</sup>) by 2022 on 1.9Mt versus 2018 base

## Savings delivered 2019-2020 (\$28m)

- Low-cost fibre
- LaSalle logistics and sawmill co-location
- Relocation of HQ

## Further run-rate savings by 2022 (\$36m)

- Capacity expansion at LaSalle, Amite and Morehouse (0.4Mt)
- Increased use of low-cost fibre
- Logistics improvements

## Additional capacity and savings from satellite plants

- Three 40kt plants in Arkansas – \$40m investment
- Utilise sawmill residues, reduce processing and transport, leverage on Drax infrastructure
- Expect a 20% reduction in production cost
- Potential for up to 0.5Mt from satellite plants

Savings versus 2018 base year	2019 (Act.)	2020 (Act.)	2022 (Est.)
Cumulative savings delivered (\$m)	19	28	64

Adjusted EBITDA development 2018-2020	2019	2020
<b>Adjusted EBITDA – prior period (\$m)</b>	<b>25</b>	<b>40</b>
Run-rate savings delivered 2019-2020 (\$m)	19	9
Indexation on intergroup sales (\$m)	5	5
Weather-affected fibre supply (\$m)	(9)	9
Increased production and sales (\$m)	-	3
<b>Adjusted EBITDA – current period (\$m)</b>	<b>40</b>	<b>66</b>
<b>Adjusted EBITDA – current period (£m)</b>	<b>32</b>	<b>52</b>

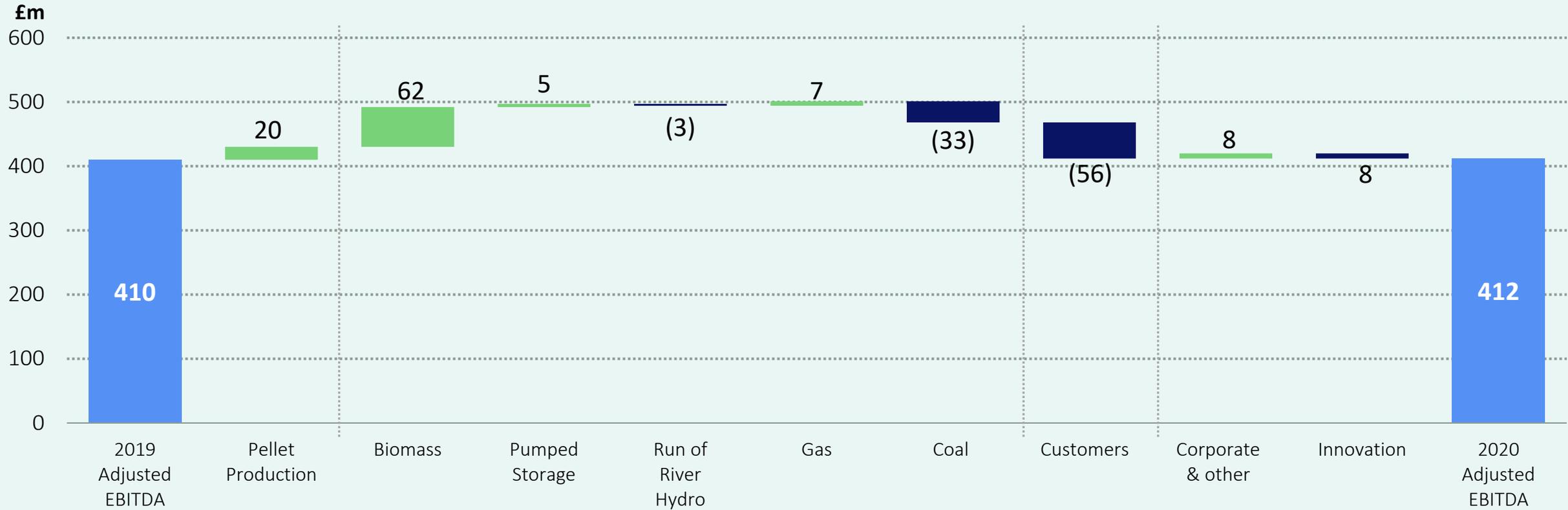
# Financial Impact of Covid-19

2020 full year impact of Covid-19 on Adjusted EBITDA in line with expectation

Expect reduced impact on Customers business in 2021

2020 (£m)		
<b>Pellet Production</b>	-	- Robust operations and supply chain throughout the year
<b>Generation</b>	c.5	<ul style="list-style-type: none"> <li>- Strong contracted position protected from lower power demand and prices</li> <li>- Reduction in ROC recycle fees</li> <li>- Additional outage costs associated with social distancing measures</li> </ul>
<b>Customers</b>	c.60	<ul style="list-style-type: none"> <li>- Reduction in demand and increased third-party costs</li> <li>- MtM cost to exit previously hedged power contracts</li> <li>- Increased bad debt expense</li> </ul>
<b>Other</b>	c.(5)	- Reduced opex costs
<b>Total</b>	<b>c.60</b>	

# Adjusted EBITDA Bridge 2019 – 2020



Pellet Production  
 2020: £52m  
 2019: £32m

Generation  
 2020: £446m  
 2019: £408m

Customers  
 2020: £(39)m  
 2019: £17m

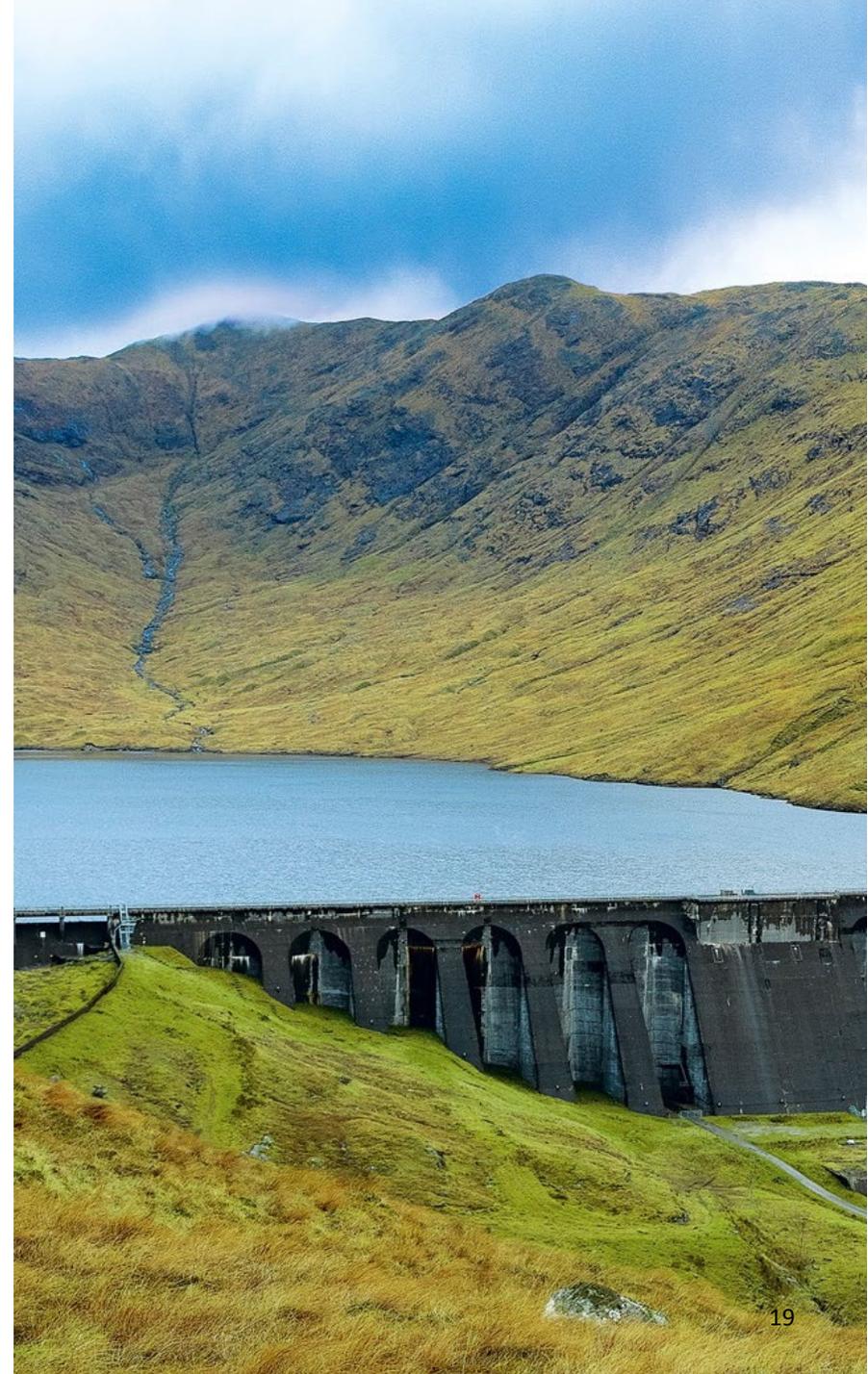
Central costs and other  
 2020: £(47)m  
 2019: £(47)m

# Capital Investment

Investment to drive operational efficiency, strategic initiatives and growth

2020 actuals	Key areas	Investment
Maintenance	Maintain operational performance	£71m
Discontinued ops	Gas	£30m
Enhancement	Efficiency and operational improvements	£23m
Strategic	Biomass self-supply	£46m
Other		£13m
<b>Total<sup>(1)</sup></b>		<b>£183m</b>

2021 estimates	Key areas	Investment
Maintenance	Maintain operational performance	£80-90m
Enhancement	Efficiency and operational improvements	£20m
Strategic	Biomass self-supply	£70-80m
Other		£20m
<b>Total</b>		<b>£190-210m</b>



# Balance Sheet

Long-term structures in place to support growth

## Facilities in place to support growth

- Infrastructure facilities extend maturity profile to 2030
- Eurobond replaced Sterling bond
- ESG RCF with interest rate linkage to carbon emissions

## Group cost of debt <4%

## Strong credit profile

- S&P/Fitch (BB+ stable)
- DBRS investment grade rating (BBB stable)

## Proposed Pinnacle acquisition

- Expect to fund from cash and existing facilities
- Credit agencies confirmed no impact on rating
- Expect around 2x net debt to Adjusted EBITDA by end of 2022

## Opportunities for balance sheet efficiency and reduced cost

1.9x net debt to  
EBITDA December  
2020

£682m cash and  
committed facilities

Maturity profile  
to 2030

Instrument	Maturity	Description
<b>Infrastructure facilities</b>		
2019	2024-2029	£375m
2020	2024-2030	c.£213m <sup>(1)</sup>
<b>Bonds</b>		
	2025	\$500m
	2025	€250m
<b>ESG Revolving Credit Facility</b>	2025	£300m (undrawn for cash)
<b>Index-linked term-loan</b>	2022	£35m

# Clear Capital Allocation Policy

Implemented in 2017, designed to support strategy

## Maintain credit rating

### Commitment to robust financial metrics

- (BB+ / BBB range)

### Net debt to Adjusted EBITDA

- Target c.2x by end 2022 inclusive of proposed acquisition of Pinnacle

## Invest in core business

**£190-210m in 2021**

## Sustainable and growing dividend

### 2020 expected full year dividend

- Up 7.5% to 17.1 pence per share

### Proposed final dividend

- 10.3 pence per share
- 60% of full year

**11% pa average growth 2017-2020**

**Update on 2021 at H1 results**

## Return surplus capital beyond investment requirement

**Additional investment in proposed acquisition of Pinnacle**

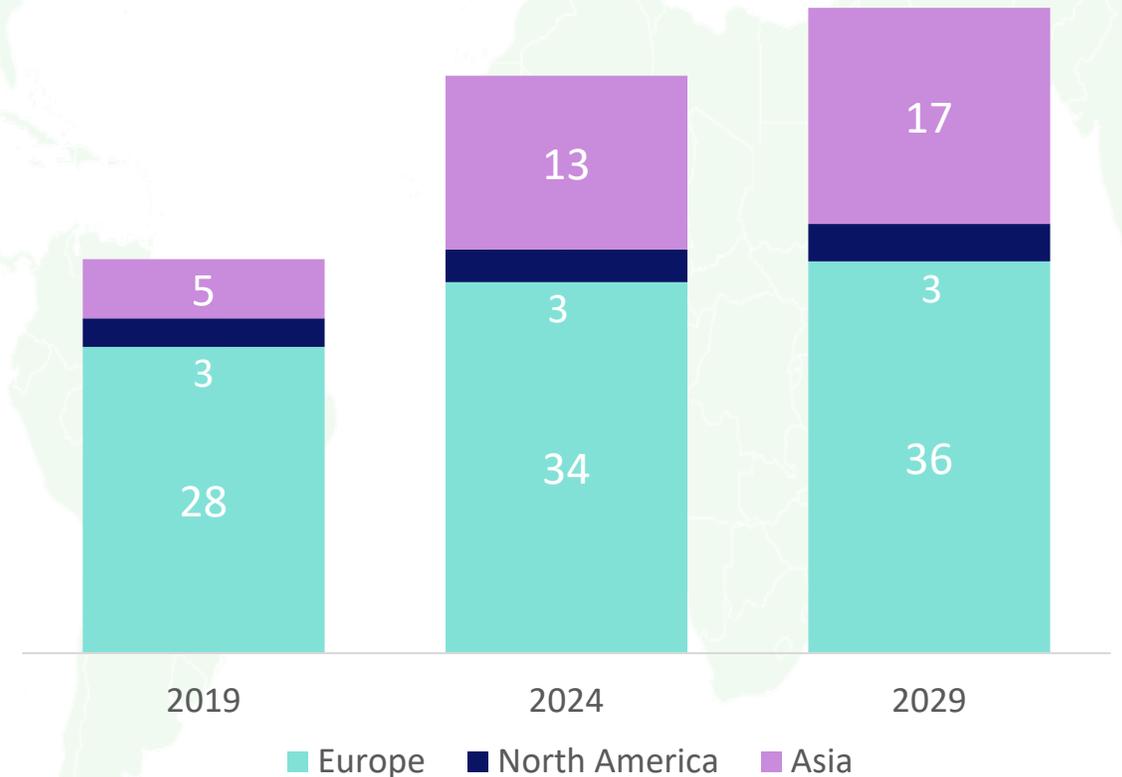
# Biomass Strategy Update

# Biomass Strategy – Create a Long-term Future for Sustainable Biomass

Three complementary models underpinned by ambition to develop a 5Mt self-supply chain at £50/MWh<sup>(1)</sup>

<b>Third-party sales model</b>	<ul style="list-style-type: none"> <li>- 5Mt of low-cost biomass available for sale</li> <li>- Growing and under-supplied global market</li> <li>- Optimisation and trading of biomass to achieve best value</li> </ul>
<b>BECCS model</b>	<ul style="list-style-type: none"> <li>- Biomass generation at Drax Power Station</li> <li>- Subject to right investment framework from UK Government</li> </ul>
<b>Merchant generation model</b>	<ul style="list-style-type: none"> <li>- Flexible operation targeted on periods of higher demand</li> <li>- System support services</li> <li>- Opportunity for capacity payments</li> <li>- Operational efficiencies and lower operating cost</li> </ul>

**Global growth opportunities for sustainable biomass<sup>(2)</sup> (Mt)**



Source: Hawkins Wright – The Outlook for Wood Pellets (Q4 2020) / Drax

1) From c.£75/MWh in 2018 to £50/MWh, assuming a constant FX rate of \$1.45/£ and 5Mt pa by 2027

2) Assumes closure of Lynemouth Power Station in UK and Drax demand maintained at 7Mt

# Proposed Acquisition of Pinnacle

Equity value of C\$385m<sup>(1)</sup> (£226m<sup>(2)</sup>)

Enterprise Value of C\$741m<sup>(3)</sup> (£436m<sup>(2)</sup>)

## Compelling opportunity to advance Drax biomass strategy

- Adds 2.9Mt of biomass production capacity
- Significantly reduces Drax average cost of production

## Increased global reach and presence in third-party markets

- Long-term contracted sales to high-quality counterparties in Asia and Europe

## Enhanced security of supply

## Global growth opportunities for sustainable biomass

## Strong return on investment

## Timetable and next steps

- Subject to approvals
- Expected completion Q2/Q3 2021
- Anticipate funding from cash and existing agreements

- 1) Fully diluted equity value
- 2) At a constant FX rate of C\$1.7/GBPE
- 3) Enterprise value including C\$356 million net debt based on Pinnacle's Q3 2020 results, to be updated to reflect Pinnacle's 2020 full year results, when reported. Excludes non-controlling interest, equity accounted investments and IFRS16 capital leases of C\$90 million

25 February 2021

## Positions Drax as world's leading sustainable biomass generation and supply business

- Acquisition supports development of options for a long-term future for sustainable biomass
- BECCS, 3<sup>rd</sup> party supply and merchant generation



# Proposed Acquisition of Pinnacle Accelerates Supply Chain Capacity and Cost Reduction

Supports all three options for long-term biomass use

## 2027 target

- 5Mt of self-supply

## 2022 interim target (before proposed Pinnacle acquisition)

- 1.9Mt

## Combined Drax and Pinnacle capacity

- 4.9Mt of capacity from 2022 for self-supply and 3<sup>rd</sup> party supply
- Includes 2.9Mt self-supply, rising to 3.4Mt in 2027

## Estimated investment of c.£600m to deliver 5Mt of self-supply

- £/t cost of organic expansion and proposed Pinnacle acquisition below this level

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## Pro forma capacity including proposed acquisition of Pinnacle (Mt)

■ Sales to third parties

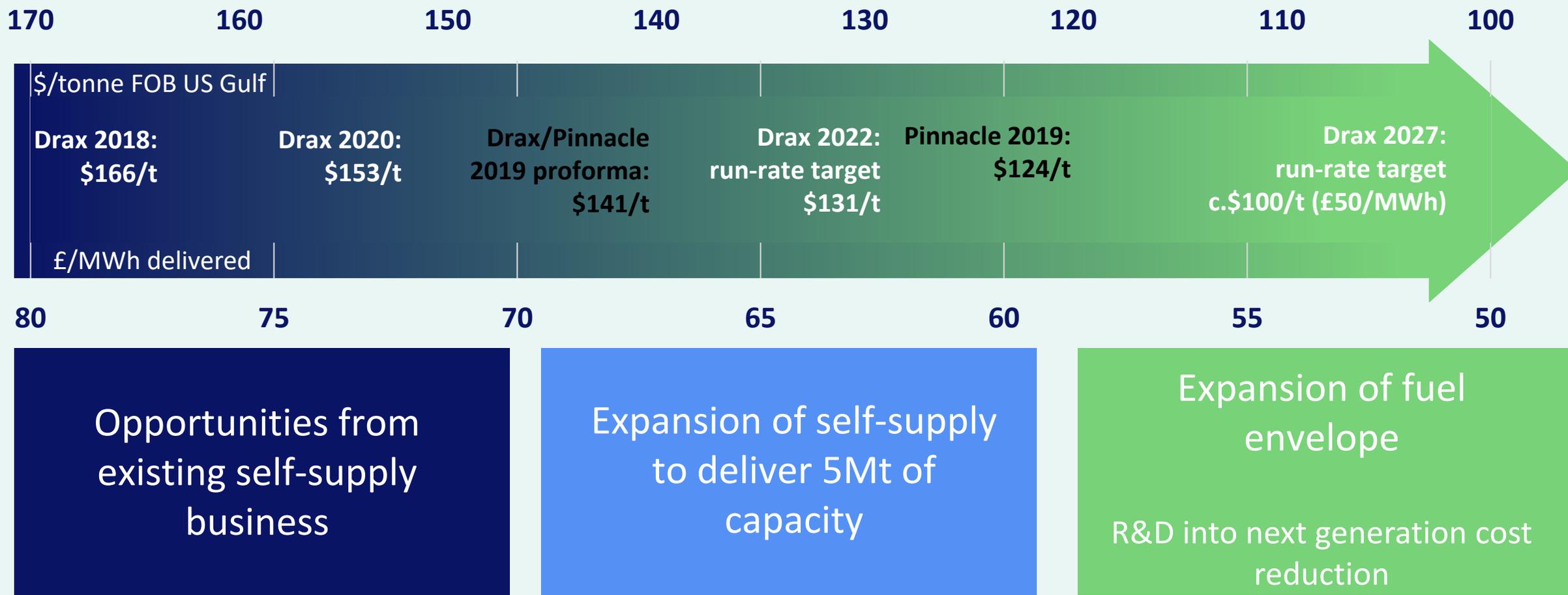
▤ Incremental required to reach 5Mt self-supply

■ Self-supply



# Biomass Cost Reduction

Increased control of supply chain to reduce overall cost of biomass generation to £50/MWh<sup>(1)</sup> by 2027



**Underpinned by further opportunities in logistics and operations and work with third-party suppliers**

# BECCS Development

Establish plans for Drax Power Station, develop wider opportunities for biomass and BECCS

## First phase

- Two biomass units with BECCS by 2030
- Expected to commence planning application process (March 2021)
- Complete pre-FEED in 2021
- Commence FEED study late 2021 subject to indication of support from UK Government

## Continue developing proven and innovative technology options

- Mitsubishi Heavy Industries
- C-Capture

## Assess alternative uses for CO<sub>2</sub>

- Trials to assess use of biogenic CO<sub>2</sub> in plastic and animal food use
- Synthetic zero-carbon fuels from hydrogen

# Development of Policy to Support Carbon Clusters, Including BECCS

Progress in 2020, emerging clarity in 2021

## 2020 – Energy White Paper and 10-point plan

- At least £1bn committed by UK Government to CCS infrastructure
- Commitment to develop two clusters by 2025 (track-1) and a further two by 2030 (track-2)
- Recognition of the unique role BECCS can play in achieving Net Zero
- Commitment to establish the role which BECCS can play by 2022
- Preliminary position paper by summer 2021

## 2021 – a key year for CCS and BECCS

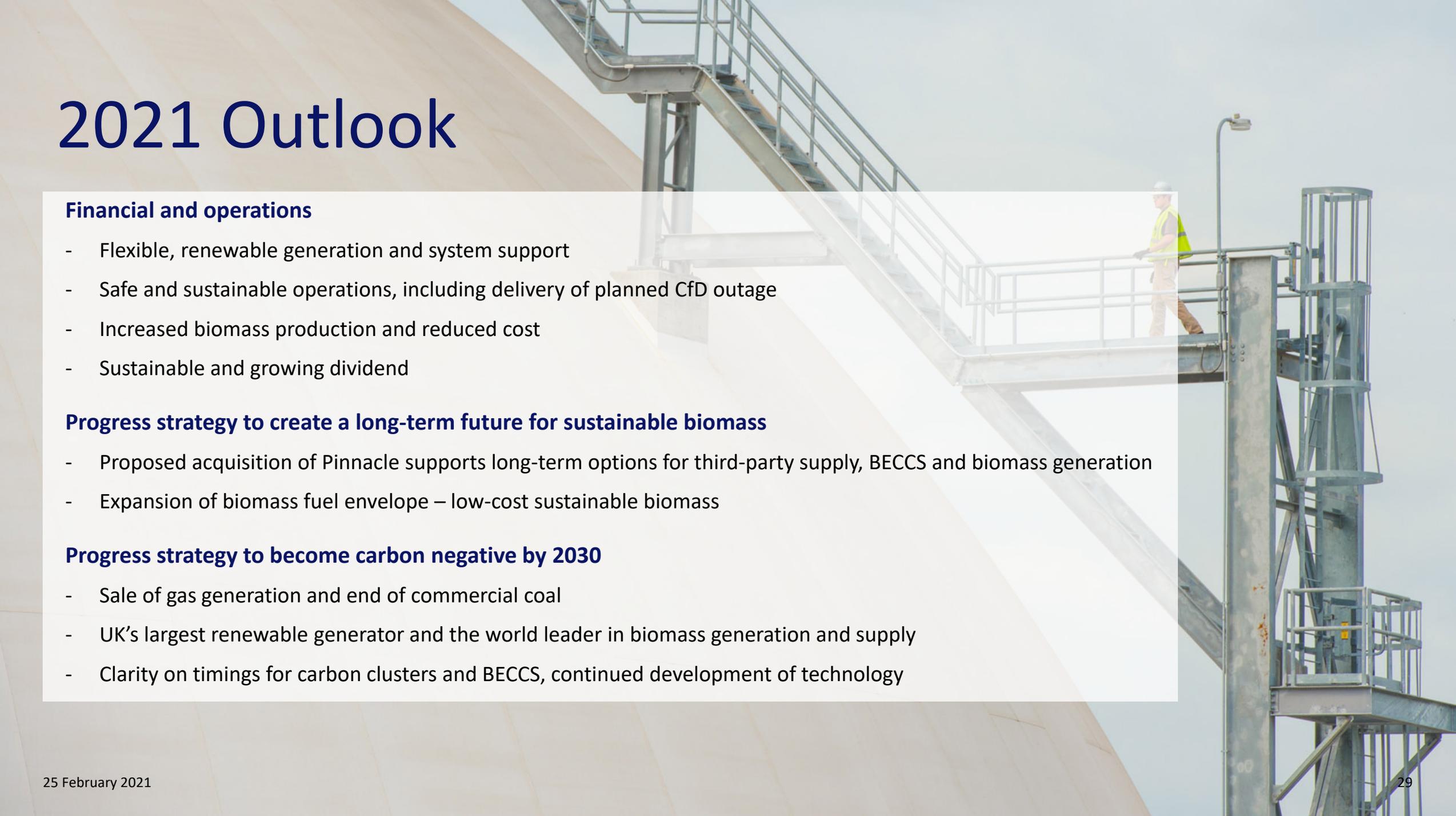
- Biomass for Net Zero strategy – preliminary position paper by summer 2021
- Launch of competition to determine sequencing of CCS industrial clusters
  - Track-1 clusters – bi-lateral agreements with UK government for deployment by the mid- 2020s, track-2 to follow by 2030
  - Drax is part of the Humber cluster – the largest carbon cluster in the UK

# Powering our Net Zero Future

December 2020 | CP 337



# 2021 Outlook

The background of the slide is a photograph of an industrial facility. It features a complex network of metal walkways, stairs, and railings. A worker wearing a yellow high-visibility vest and a white hard hat is walking on one of the upper walkways. The sky is a clear, light blue. The overall scene suggests a large-scale industrial or energy production site.

## **Financial and operations**

- Flexible, renewable generation and system support
- Safe and sustainable operations, including delivery of planned CfD outage
- Increased biomass production and reduced cost
- Sustainable and growing dividend

## **Progress strategy to create a long-term future for sustainable biomass**

- Proposed acquisition of Pinnacle supports long-term options for third-party supply, BECCS and biomass generation
- Expansion of biomass fuel envelope – low-cost sustainable biomass

## **Progress strategy to become carbon negative by 2030**

- Sale of gas generation and end of commercial coal
- UK's largest renewable generator and the world leader in biomass generation and supply
- Clarity on timings for carbon clusters and BECCS, continued development of technology



# 2020 Full Year Results

25 February 2021

# Appendices

**Group Adjusted EBITDA**

**Group Income Statement – Continuing Operations**

**Group Income Statement  
– Adjusted Results – Continuing and Discontinued Operations**

**Consolidated Adjusted EBITDA**

**Generation – Adjusted EBITDA**

**Pellet Production – Adjusted EBITDA**

**Customers – Adjusted EBITDA**

**Group Cash Flow Statement**

**Group Net Debt Bridge**

**UK Energy White Paper**

**Sustainable Biomass Sourcing and Carbon Life Cycle**

**Sources of Biomass Supply**

**Merchant Forward Power Prices**

**Merchant Forward Commodity Prices**

**Merchant Forward Spreads**

# 2020 Group Adjusted EBITDA

High-quality, enduring earnings from a multi-technology portfolio and integrated value chain

Business unit	Assets	Capacity	EBITDA (£m)	% of EBITDA	
<b>Pellet Production</b>	Three pellet plants in US Gulf Port of Baton Rouge	1.6Mt 2.4Mt	<b>52</b>	<b>13%</b>	
<b>Generation</b>	Biomass <sup>(1)</sup>	2.6GW	<b>333</b>	<b>81%</b>	
	Hydro	Cruachan Pumped Storage Lanark and Galloway hydro schemes Daldowie – energy from waste	0.5GW	<b>73</b>	<b>18%</b>
	Gas	Discontinued gas generation assets	2.0GW	<b>46</b>	<b>11%</b>
	Coal <sup>(1)</sup>		1.3GW	<b>(6)</b>	<b>(1)%</b>
<b>Customers</b>	I&C SME		<b>(39)</b>	<b>(10)%</b>	
<b>Central Costs &amp; Other</b>	Innovation, capital projects and core services		<b>(47)</b>	<b>(12)%</b>	
<b>Total</b>			<b>412</b>	<b>100%</b>	

# Group Income Statement – Continuing Operations

In £m	2020			2019		
	Adjusted	Exceptional	Total	Adjusted	Exceptional	Total
Revenue	4,235	10	4,245	4,457	11	4,468
Cost of sales	(3,435)	(84)	(3,519)	(3,659)	(132)	(3,790)
<b>Gross profit</b>	<b>800</b>	<b>(74)</b>	<b>726</b>	<b>798</b>	<b>(121)</b>	<b>677</b>
<b>Adjusted EBITDA from continuing operations</b>	<b>366</b>	-	-	<b>371</b>	-	-
Depreciation	(133)	-	(133)	(151)	-	(151)
Amortisation	(38)	-	(38)	(42)	-	(42)
Asset obsolescence charges	-	(239)	(239)	-	-	-
Losses on disposal of fixed assets	(6)	-	(6)	-	-	-
Other gains and losses	-	-	-	1	-	1
Acquisition and restructuring costs	-	(1)	(1)	-	(9)	(9)
<b>Operating profit / (loss)</b>	<b>189</b>	<b>(345)</b>	<b>(156)</b>	<b>179</b>	<b>(131)</b>	<b>48</b>
Foreign exchange (losses) / gains	(2)	(1)	(3)	(2)	2	-
Net interest charge	(68)	(8)	(76)	(59)	(5)	(64)
<b>Profit / (loss) before tax</b>	<b>119</b>	<b>(354)</b>	<b>(235)</b>	<b>118</b>	<b>(134)</b>	<b>(16)</b>
Tax	(23)	63	40	(19)	25	6
<b>Net result from continuing operations</b>	<b>96</b>	<b>(291)</b>	<b>(195)</b>	<b>99</b>	<b>(108)</b>	<b>(10)</b>

# Group Income Statement – Adjusted Results – Continuing and Discontinued Operations

In £m	2020			2019		
	Continuing	Discontinued	Total	Continuing	Discontinued	Total
Revenue	4,235	206	4,441	4,457	246	4,703
Cost of sales	(3,435)	(127)	(3,562)	(3,659)	(177)	(3,836)
<b>Gross profit</b>	<b>800</b>	<b>79</b>	<b>879</b>	<b>798</b>	<b>69</b>	<b>867</b>
<b>Adjusted EBITDA</b>	<b>366</b>	<b>46</b>	<b>412</b>	<b>371</b>	<b>39</b>	<b>410</b>
Depreciation	(133)	(19)	(152)	(151)	(16)	(166)
Amortisation	(38)	-	(38)	(42)	-	(42)
Losses on disposal of fixed assets	(6)	-	(6)	-	-	-
Other gains and losses	-	-	-	1	2	3
<b>Operating profit / (loss)</b>	<b>189</b>	<b>27</b>	<b>216</b>	<b>179</b>	<b>25</b>	<b>204</b>
Foreign exchange (losses) / gains	(2)	-	(2)	(2)	-	(2)
Net interest charge	(68)	(1)	(69)	(59)	(1)	(60)
<b>Profit / (loss) before tax</b>	<b>119</b>	<b>26</b>	<b>145</b>	<b>118</b>	<b>24</b>	<b>142</b>
Tax	(23)	(5)	(27)	(19)	(5)	(24)
<b>Profit / (loss) for the period</b>	<b>96</b>	<b>21</b>	<b>118</b>	<b>99</b>	<b>19</b>	<b>118</b>
<b>Basic earnings per share (pence)</b>	<b>24.3</b>	<b>5.3</b>	<b>29.6</b>	<b>24.9</b>	<b>4.9</b>	<b>29.9</b>

# Consolidated Adjusted EBITDA

2020 £m	Power Generation	Pellet Production	Customers	Adjustments	Consolidated
<b>Segment Adjusted EBITDA</b>	<b>446<sup>(1)</sup></b>	<b>52</b>	<b>(39)</b>	<b>3</b>	<b>462</b>
Central Costs					(38)
Innovation and capital projects					(12)
<b>Consolidated Adjusted EBITDA</b>					<b>412</b>

2019 £m	Power Generation	Pellet Production	Customers	Adjustments	Consolidated
<b>Segment Adjusted EBITDA</b>	<b>408<sup>(1)</sup></b>	<b>32</b>	<b>17</b>	<b>(1)</b>	<b>456</b>
Central Costs					(42)
Innovation and capital projects					(4)
<b>Consolidated Adjusted EBITDA</b>					<b>410</b>

# Generation – Adjusted EBITDA

In £m	2020	2019
<b>Revenue</b>		
Power sales	2,164	2,258
System support and optimisation	146	143
ROC sales	1,024	1,102
CfD income	342	260
Capacity Market income	73	78
Gas sales to Customers business	60	55
Fuel sales	32	42
Other income	10	9
	<b>3,851</b>	<b>3,947</b>
<b>Cost of sales</b>		
Generation fuel costs	(1,216)	(1,211)
Cost of system support and optimisation	(28)	(23)
Fuel sold	(18)	(22)
ROC support	495	490
Carbon tax	(44)	(33)
Carbon certificates	(63)	(26)
ROCs sold or utilised	(1,026)	(1,088)
Cost of power purchases	(1,194)	(1,331)
Grid charges	(70)	(53)
	<b>(3,164)</b>	<b>(3,297)</b>
<b>Gross profit</b>	<b>687</b>	<b>650</b>
Operating costs	(241)	(242)
<b>Total Adjusted EBITDA<sup>(1)</sup></b>	<b>446</b>	<b>408</b>

## System support and optimisation

£m	2020	2019
<b>System support and optimisation</b>		
Balancing mechanism, Ancillary Services and portfolio optimisation	146	143
	(28)	(23)
<b>Margin from system support and optimisation</b>	<b>118</b>	<b>120</b>
Advantaged fuels – coal	-	9
<b>Value from flexibility</b>	<b>118</b>	<b>129</b>

## Average achieved power price

	2020	2019
Gross power sales (£m)	2,164	2,258
Cost of power purchases (£m)	(1,194)	(1,331)
<b>Net power sales (£m)</b>	<b>948</b>	<b>927</b>
Net power sales (TWh)	19.2	17.5
<b>Average achieved price (£/MWh)</b>	<b>50.5</b>	<b>53.0</b>

# Pellet Production – Adjusted EBITDA

In £m	2020	2019
Revenues	231	229
Cost of sales	(127)	(145)
<b>Gross profit</b>	<b>104</b>	<b>84</b>
Operating costs	(52)	(52)
<b>Adjusted EBITDA</b>	<b>52</b>	<b>32</b>

## Revenues

- FOB price for biomass at port of Baton Rouge
- Generation business incurs cost of ocean freight, UK port and rail costs

## Drax US production cost

	2020	2019
Cost of sales (\$m)	(164)	(185)
Operating costs (\$m)	(67)	(68)
<b>Total cost (\$m)</b>	<b>(231)</b>	<b>(253)</b>
Other adjustments (\$m)	(3)	(26)
<b>Underlying cost of Drax pellets (\$m)</b>	<b>228</b>	<b>227</b>
Drax pellet production (Mt)	1.5	1.4
<b>Cost per tonne (\$/t)</b>	<b>153</b>	<b>161</b>

## Customers – Adjusted EBITDA

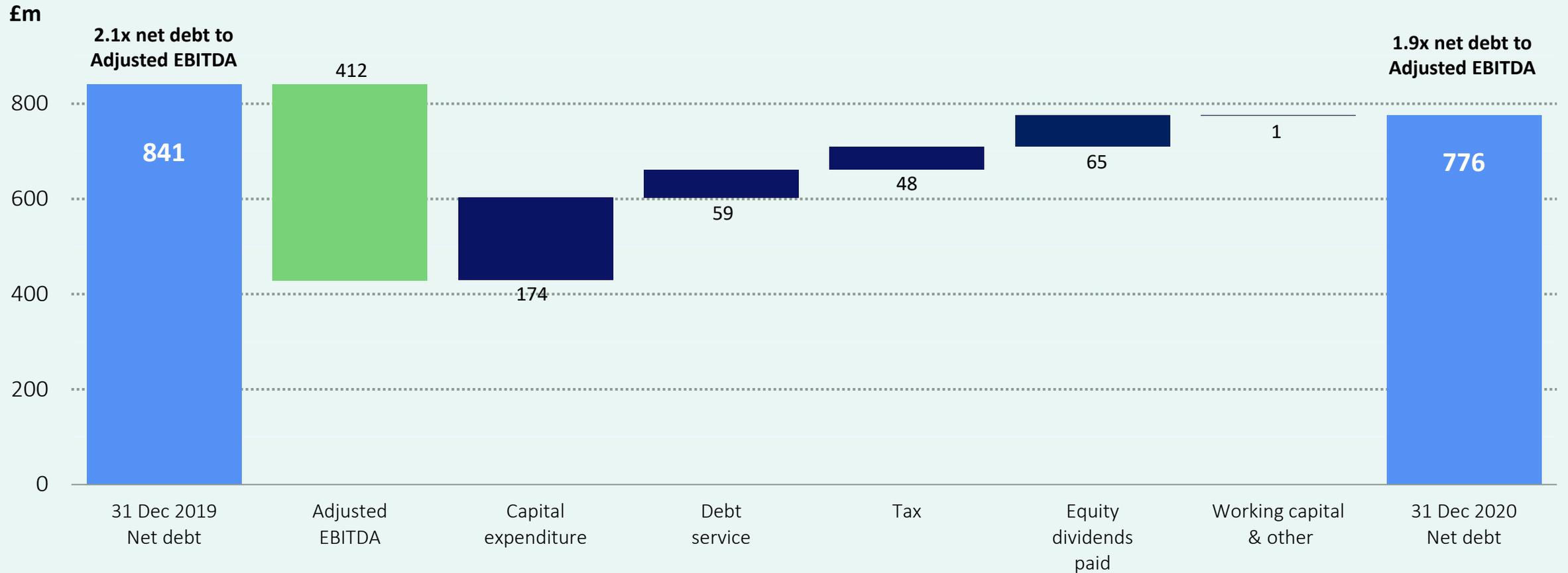
In £m	2020	2019
<b>Revenue</b>	<b>2,119</b>	<b>2,269</b>
<b>Cost of sales</b>		
Cost of power and gas purchases	(858)	(971)
Grid charges	(464)	(468)
Other costs	(713)	(696)
	<b>(2,035)</b>	<b>(2,135)</b>
<b>Gross profit</b>	<b>84</b>	<b>134</b>
Operating costs	(80)	(99)
Bad debt charge	(43)	(18)
<b>Adjusted EBITDA</b>	<b>(39)</b>	<b>17</b>

# Group Cash Flow Statement

In £m	2020	2019
Adjusted EBITDA <sup>(1)</sup>	412	410
Working capital and other	1	61
<b>Cash generated from operations</b>	<b>413</b>	<b>471</b>
Debt service	(59)	(48)
Tax <sup>(2)</sup>	(48)	(10)
<b>Net cash from operating activities</b>	<b>306</b>	<b>413</b>
Capital investment	(174)	(171)
Acquisition of subsidiaries	-	(692)
Net refinancing	(176)	636
Equity dividends paid	(65)	(59)
Purchase of own shares	-	(3)
Other	(5)	(9)
<b>Net (decrease) / increase in cash and cash equivalents</b>	<b>(114)</b>	<b>115</b>
Cash and cash equivalents at the beginning of the period	404	289
Net cash flow	(114)	115
<b>Cash and cash equivalents at the end of the period</b>	<b>290</b>	<b>404</b>

# Group Net Debt Bridge

1.9x net debt to Adjusted EBITDA 31 December 2020



# UK Energy White Paper

## Description of biomass and BECCS

**By 2022, we will establish the role which BECCS can play in reducing carbon emissions** across the economy and, as part of a wider biomass strategy, set out how the technology could be deployed. **Biomass is unique amongst renewable technologies in the wide array of applications in which it can be used as a substitute for fossil-fuel based products and activities, from power generation to hydrogen production and even new forms of plastics.** Along with its ability to deliver negative emissions, this makes biomass **one of our most valuable tools for reaching net zero emissions.**

In the government's response to Climate Change Committee's (CCC) latest annual progress report to Parliament, we announced that **we will publish a new Biomass Strategy in 2022.** As part of this strategy, we will set out the results of a review of the amount of sustainable biomass available to the UK, and how this resource could be best utilised across the economy to help achieve our net zero greenhouse gas emissions target by 2050.

Our review will assess the UK's current biomass sustainability standards, which are already some of the world's most stringent, to see where and how we can improve them even further. Our review will also consider the role biomass can play in delivering our wider environmental targets, including on air quality. We will shortly issue a call for evidence: 'Biomass for net zero', to inform the development of our strategy. **We will issue a preliminary position paper by summer 2021,** once the evidence has been reviewed. **Critical to our consideration will be the role of BECCS in our energy system. BECCS plants could deliver negative emissions,** by capturing the carbon released during biomass combustion, gasification and other processes, provided supply chain emissions are sufficiently low. There are a number of applications for BECCS across the economy, including clean hydrogen production, power generation, waste management and in heat for industrial processes and we need to ensure that it is deployed where it has the greatest value in reducing emissions. For example, **current support for electricity generation, which converted from coal to using biomass as a fuel source, expires in 2027. BECCS could provide a long-term future for this capacity**

# Powering our Net Zero Future

December 2020 | CP 337



# Sustainable Biomass Sourcing and Carbon Life Cycle

Science-led biomass sourcing policy ensures long-term sustainability and contribution to natural environment

## Key principles

- No deforestation
- No carbon debt
- More standing volume in forest area than before

## Objectives

- Reduce CO<sub>2</sub> emissions
- Protect the natural environment
- Support people and societies
- Research, outreach and intervention

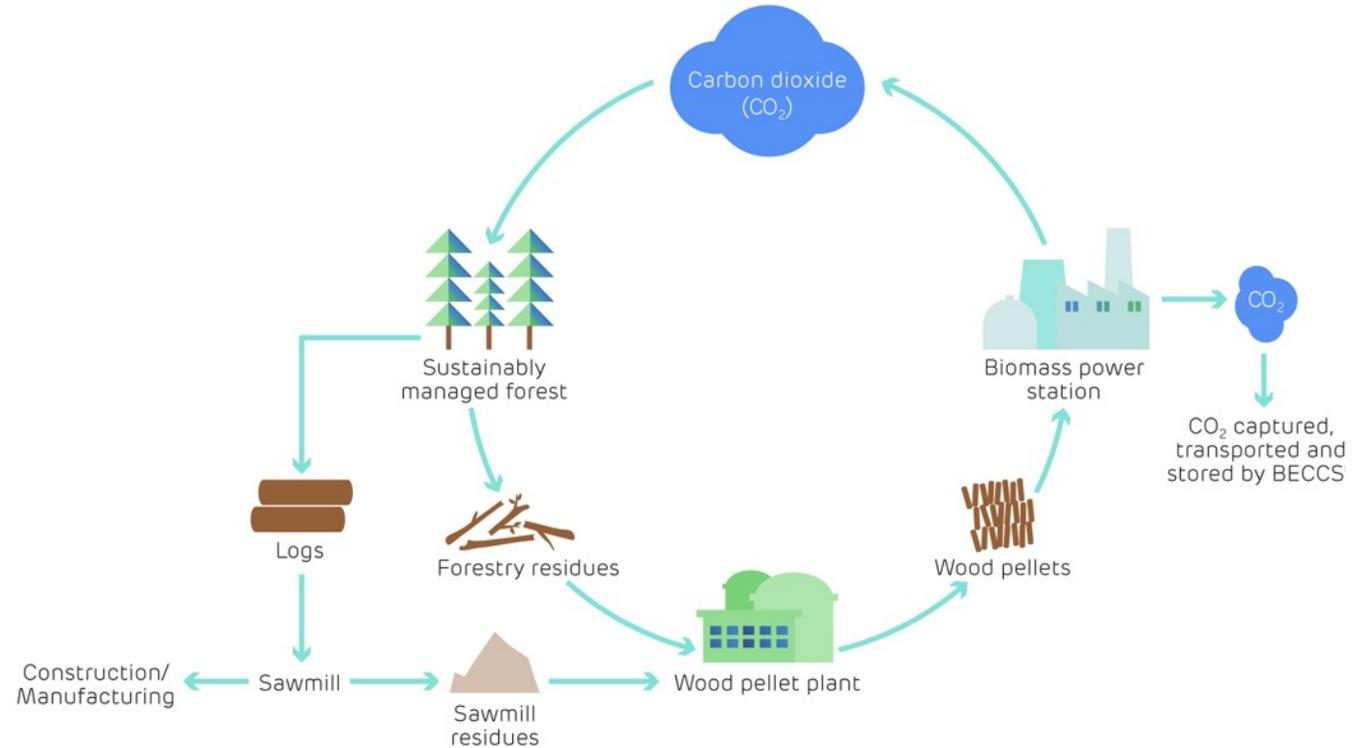
## Policy

- Reflects Committee on Climate Change bioenergy review and Forest Research<sup>(1)</sup> recommendations
- Independent Advisory Board provides assurance

## Strong regulatory mechanisms ensure biomass sustainability

- European Union Renewable Energy Directive II
- UK ROC and CfD renewable schemes

## Biomass generation carbon life cycle



1) Forest Research is Great Britain's principal organisation for forestry and tree related research and is internationally renowned for the provision of evidence and scientific services in support of sustainable forestry  
25 February 2021

# Sources of Biomass Supply

## Drax Group sources of fibre by location – 2020

	Sawmill residues	Branches, tops and bark	Thinnings	Low grade round wood	Agri. residues	Total
<b>USA</b>	23%	1%	15%	24%	-	<b>63%</b>
<b>Canada</b>	14%	2%	-	1%	-	<b>17%</b>
<b>Latvia</b>	3%	-	-	6%	-	<b>9%</b>
<b>Estonia</b>	-	-	-	1%	-	<b>1%</b>
<b>Portugal</b>	-	-	1%	2%	-	<b>2%</b>
<b>Brazil</b>	-	-	-	2%	-	<b>2%</b>
<b>Other European</b>	3%	-	-	-	3%	<b>6%</b>
<b>Total</b>	<b>43%</b>	<b>3%</b>	<b>16%</b>	<b>35%</b>	<b>3%</b>	<b>100%</b>

## Drax Group sources of fibre by location – 2019

	Sawmill residues	Branches, tops and bark	Thinnings	Low grade round wood	Agri. residues	Total
<b>USA</b>	19%	10%	19%	16%	1%	<b>65%</b>
<b>Canada</b>	14%	2%	-	-	-	<b>16%</b>
<b>Latvia</b>	4%	-	-	5%	-	<b>9%</b>
<b>Estonia</b>	1%	-	1%	-	-	<b>2%</b>
<b>Portugal</b>	-	-	1%	1%	-	<b>2%</b>
<b>Brazil</b>	1%	-	-	-	1%	<b>2%</b>
<b>Other European</b>	2%	-	-	-	2%	<b>4%</b>
<b>Total</b>	<b>41%</b>	<b>12%</b>	<b>21%</b>	<b>22%</b>	<b>4%</b>	<b>100%</b>

## Drax self-supply sources of fibre – 2020

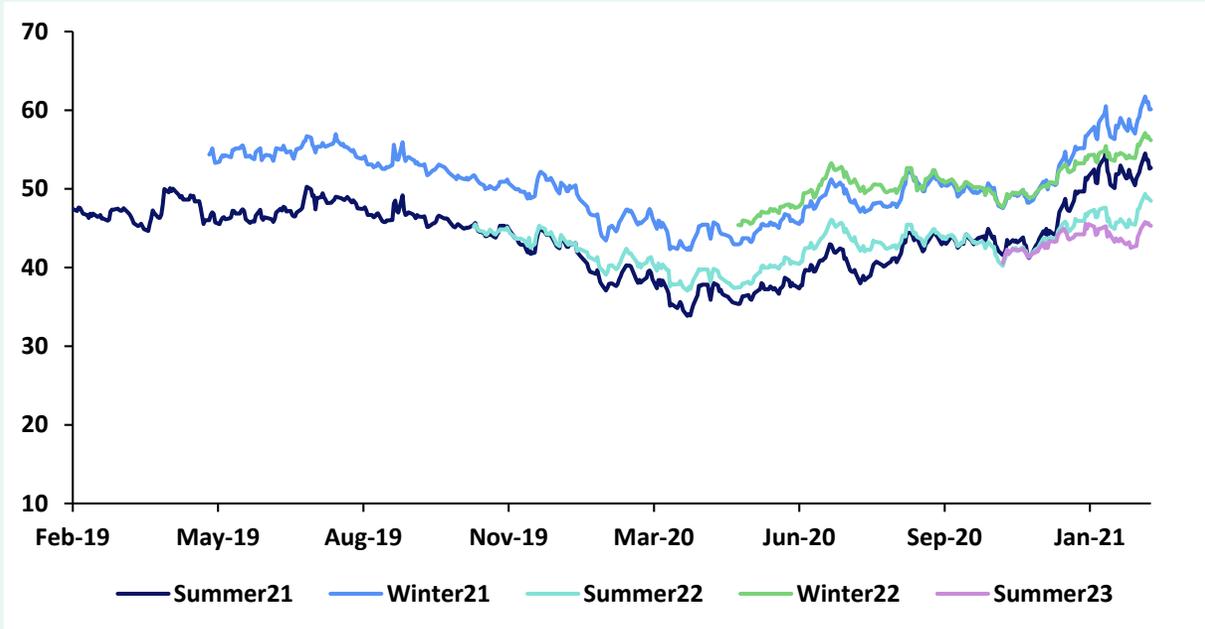
	Sawmill residues	Branches, tops and bark	Thinnings	Low grade round wood	Agri. residues	Total
<b>USA</b>	21%	-	44%	35%	-	<b>100%</b>

## Drax self-supply sources of fibre – 2019

	Sawmill residues	Branches, tops and bark	Thinnings	Low grade round wood	Agri. residues	Total
<b>USA</b>	12%	-	53%	35%	-	<b>100%</b>

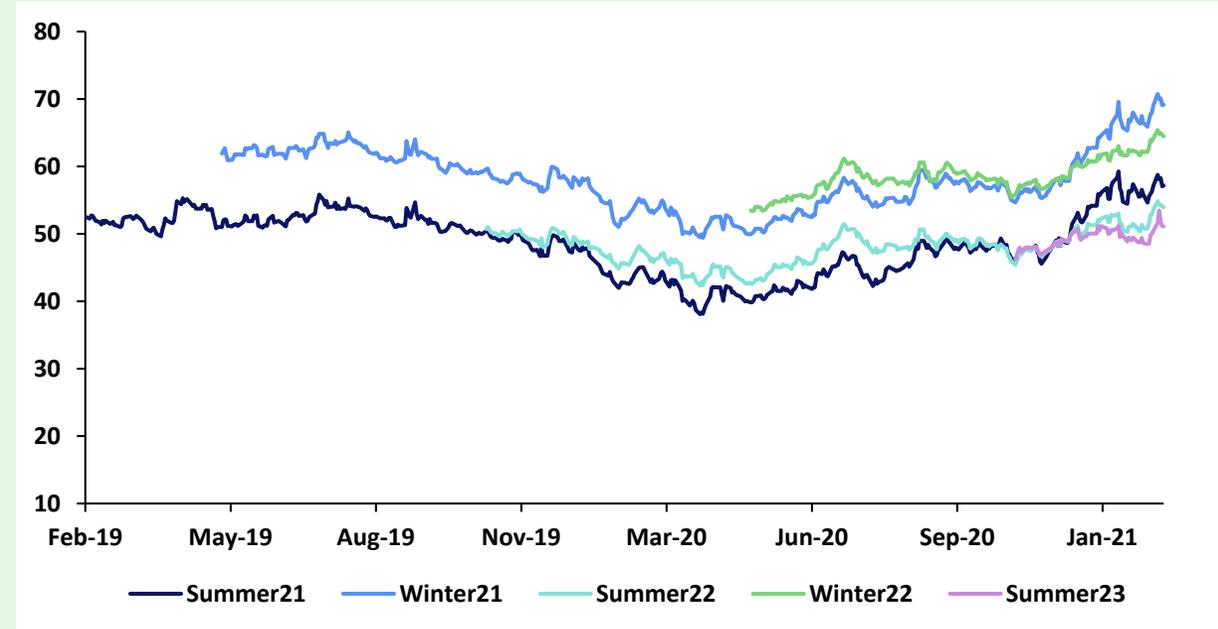
# Merchant Forward Power Prices

## Seasonal Power Price (£/MWh)



Source: ICE

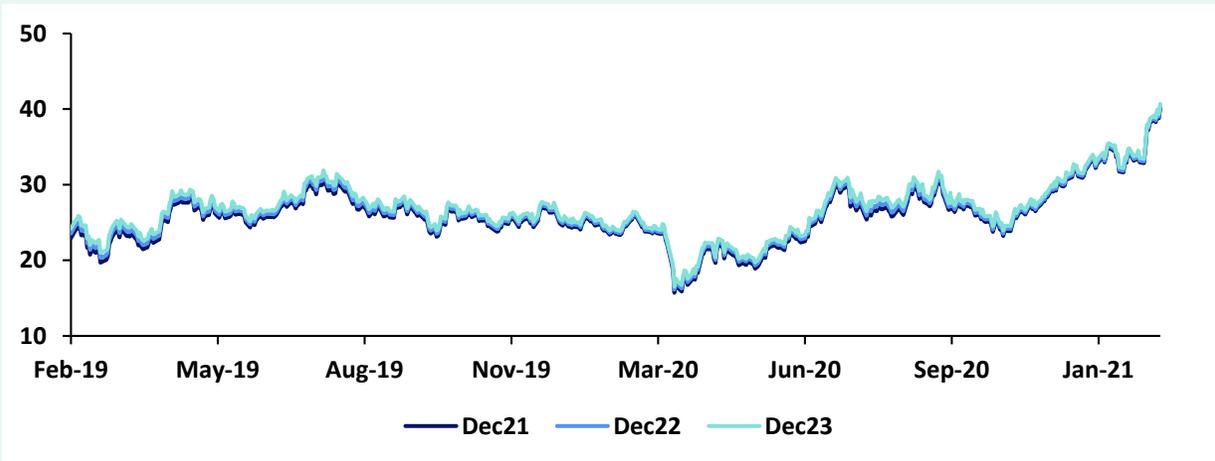
## Peak Power Price (£/MWh)



Source: ICE

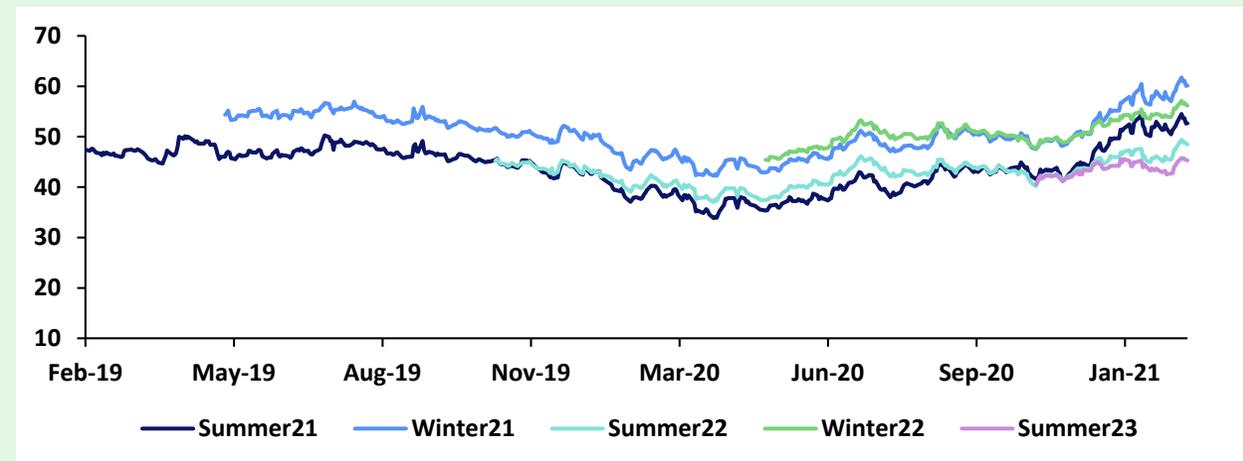
# Merchant Forward Commodity Prices

## EU ETS Carbon (€/t)



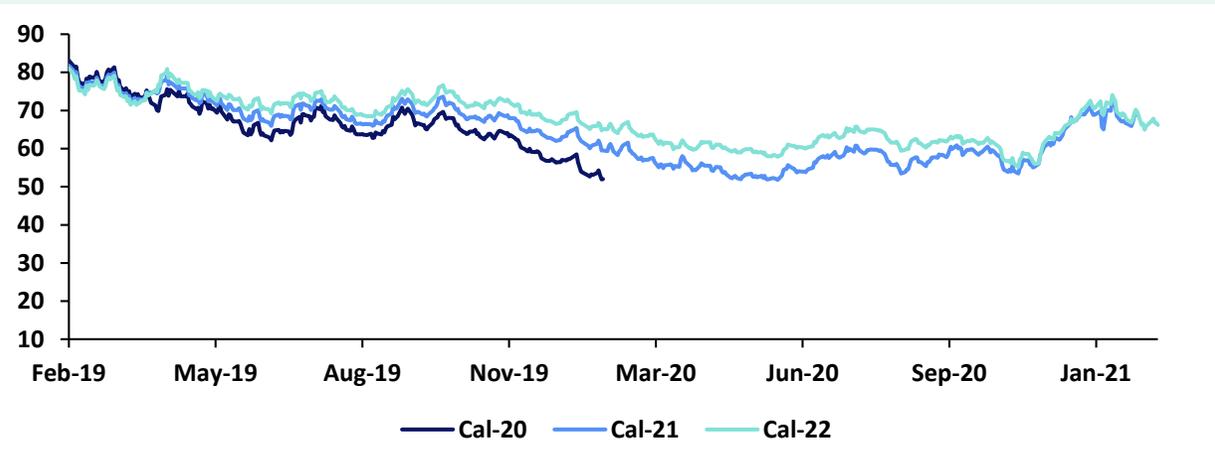
Source: ICE

## Power Price (£/MWh)



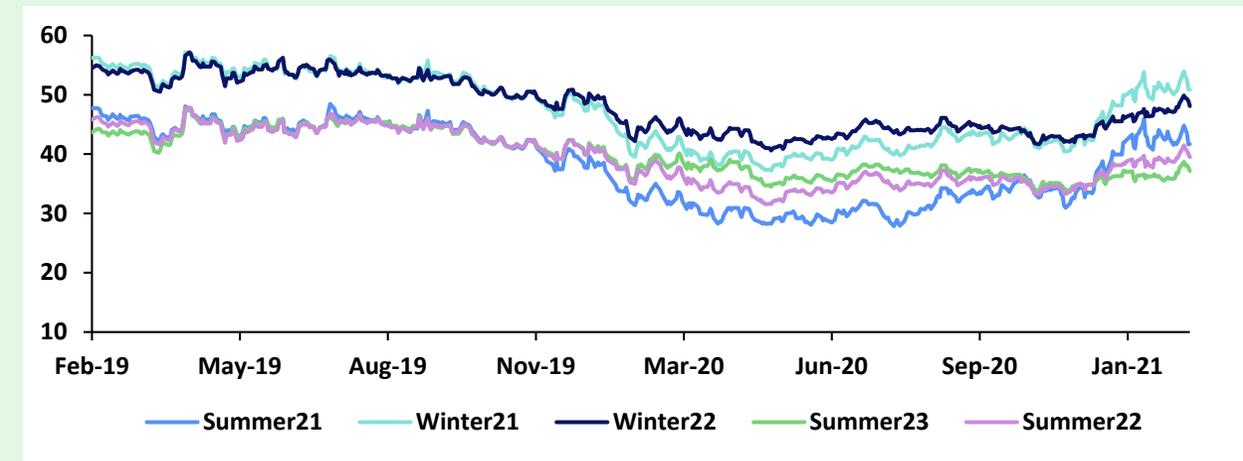
Source: ICE

## API2 Coal Price (\$/t)



Source: ICE

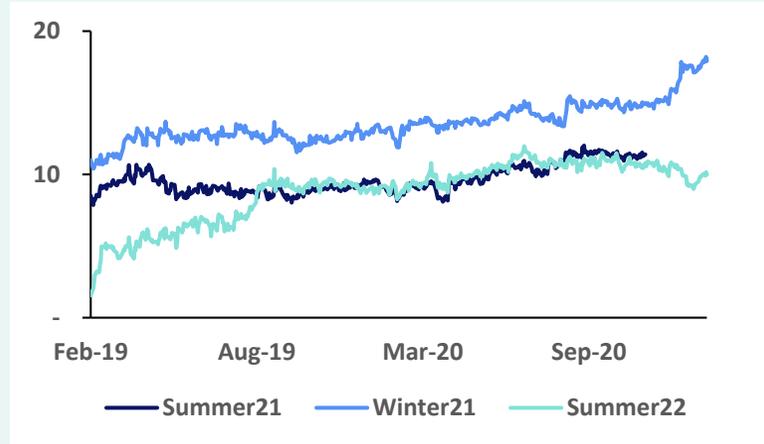
## NBP Gas Price (p/therm)



Source: ICE

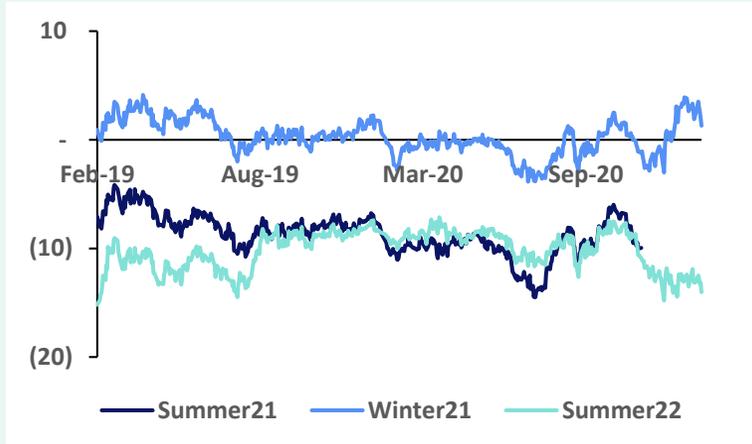
# Merchant Forward Spreads

### Peak CSS (£/MWh)



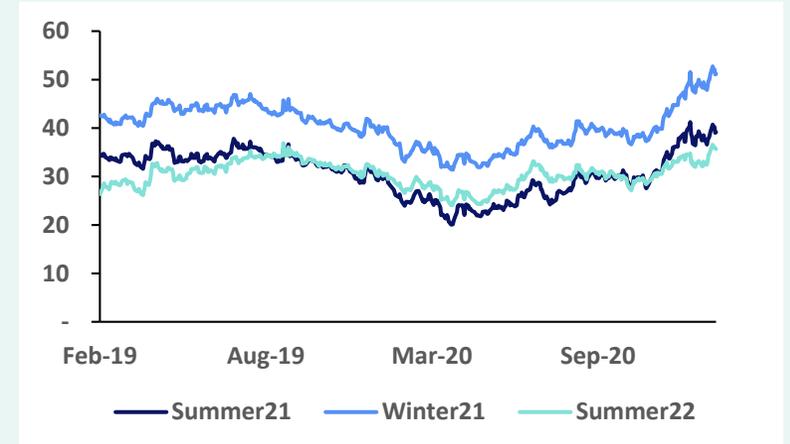
Source: ICE, Reuters and Drax

### Peak DGS (£/MWh)



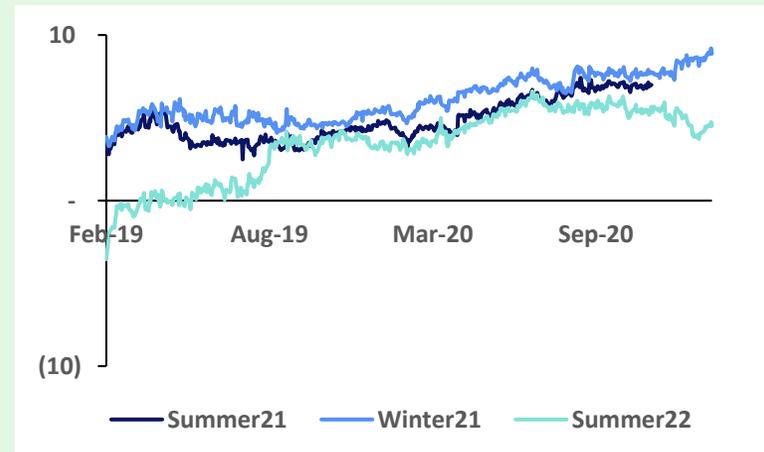
Source: ICE, Reuters and Drax

### Peak ROC Bark Spread (£/MWh)



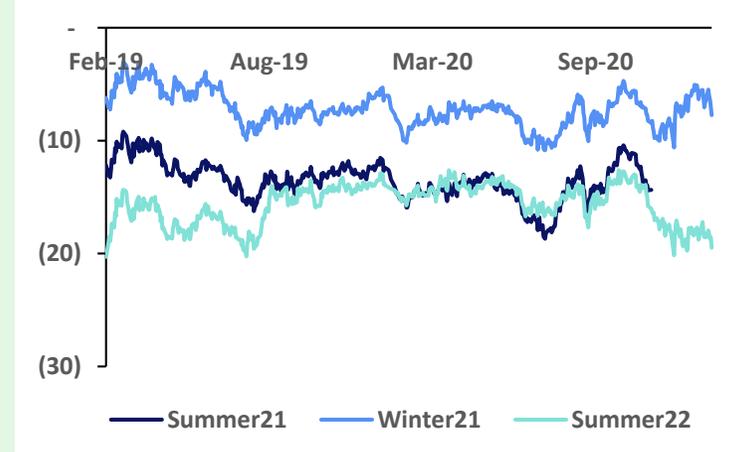
Source: ICE, Reuters and Drax

### Baseload CSS (£/MWh)



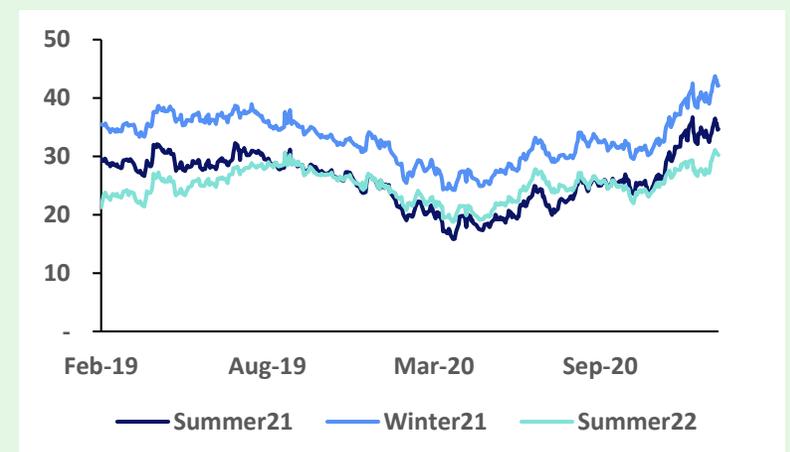
Source: ICE, Reuters and Drax

### Baseload DGS (£/MWh)



Source: ICE, Reuters and Drax

### Baseload ROC Bark Spread (£/MWh)



Source: ICE, Reuters and Drax



# 2020 Full Year Results

25 February 2021