



# FULL YEAR RESULTS

**12 Months Ended 31 December 2018**  
26 February 2019

# AGENDA

## **Our Purpose**

Will Gardiner

## **Operations and Business Review**

Will Gardiner

## **Financial Review**

Andy Skelton

## **Strategy Update**

Will Gardiner



# OUR PURPOSE

ENABLING A ZERO CARBON,  
LOWER COST ENERGY FUTURE

# DRAX GROUP 2019

ENABLING A ZERO CARBON LOWER COST ENERGY FUTURE

## Multi-site, multi-technology portfolio

6.5GW capacity

- 2.6GW biomass
- 1.3GW coal
- 0.4GW pumped storage
- 0.1GW hydro
- 2.1GW CCGT

## Development options

2 x 1.8GW coal to CCGT (Drax Power Station)

1.8GW CCGT (Damhead Creek)

4 x 0.3GW OCGT

Up to 0.4GW hydro expansion (Cruachan)

## B2B Energy Supply

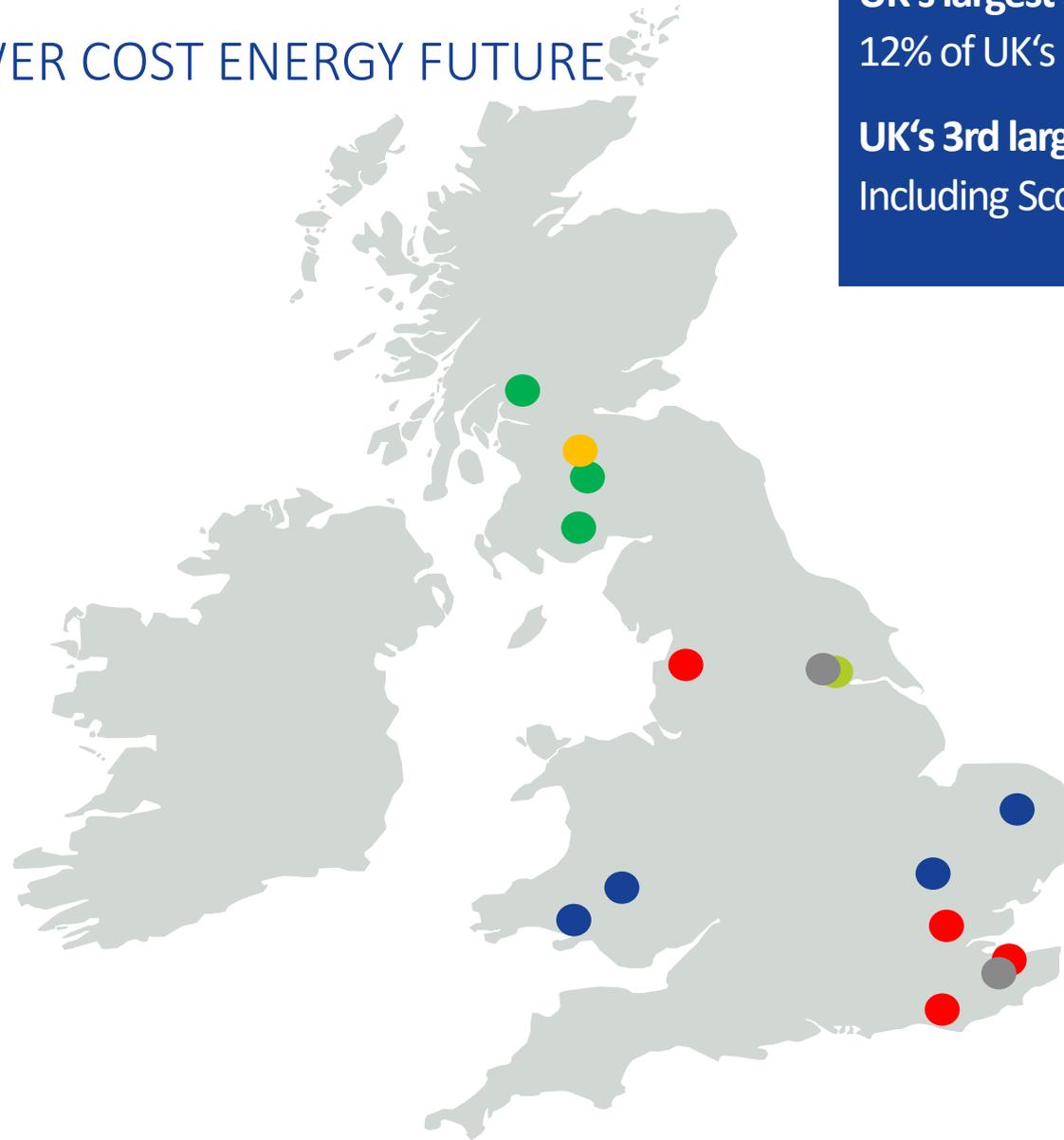
Leading challenger brands

- Haven Power / Opus Energy

## US Gulf operations

1.5Mt pellet capacity

2.1Mt export facility

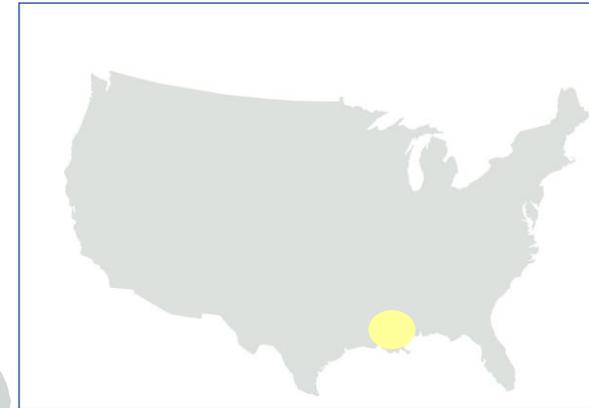


UK's largest source of renewable generation

12% of UK's renewable power in 2018

UK's 3rd largest energy generator

Including ScottishPower Generation



# 2018 PERFORMANCE SUMMARY

## Group

Good financial performance and cash returns for shareholders  
Transformational acquisition of ScottishPower Generation  
Significant growth opportunities

## Pellet Production

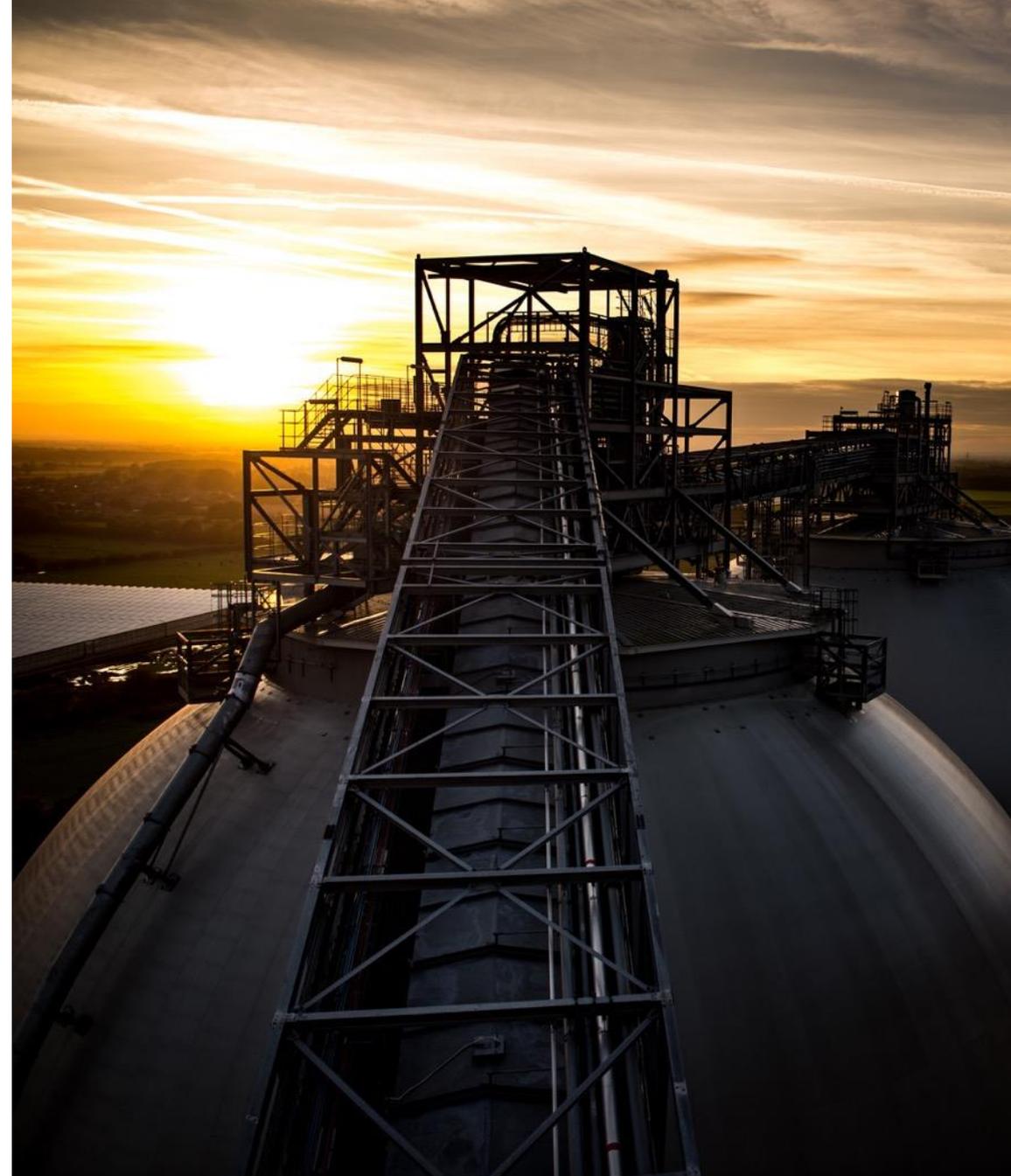
Increased output and reduced cost

## Power Generation

Good operational performance  
Conversion of fourth biomass unit

## B2B Energy Supply

Challenging market environment  
Good growth in gross profit



# OPERATIONS AND BUSINESS REVIEW



# SAFETY, SUSTAINABILITY AND ESG

## A LONG-TERM AND SUSTAINABLE BUSINESS MODEL

### Safety

TRIR 0.22 (2017: 0.27)

### Sustainability

#### Biomass sustainability

- Proven carbon abatement
    - 86% saving versus coal
  - Well-established governance and audit controls
  - Focus on long-term cost of biomass
- EU Renewable Energy Directive

### Environment

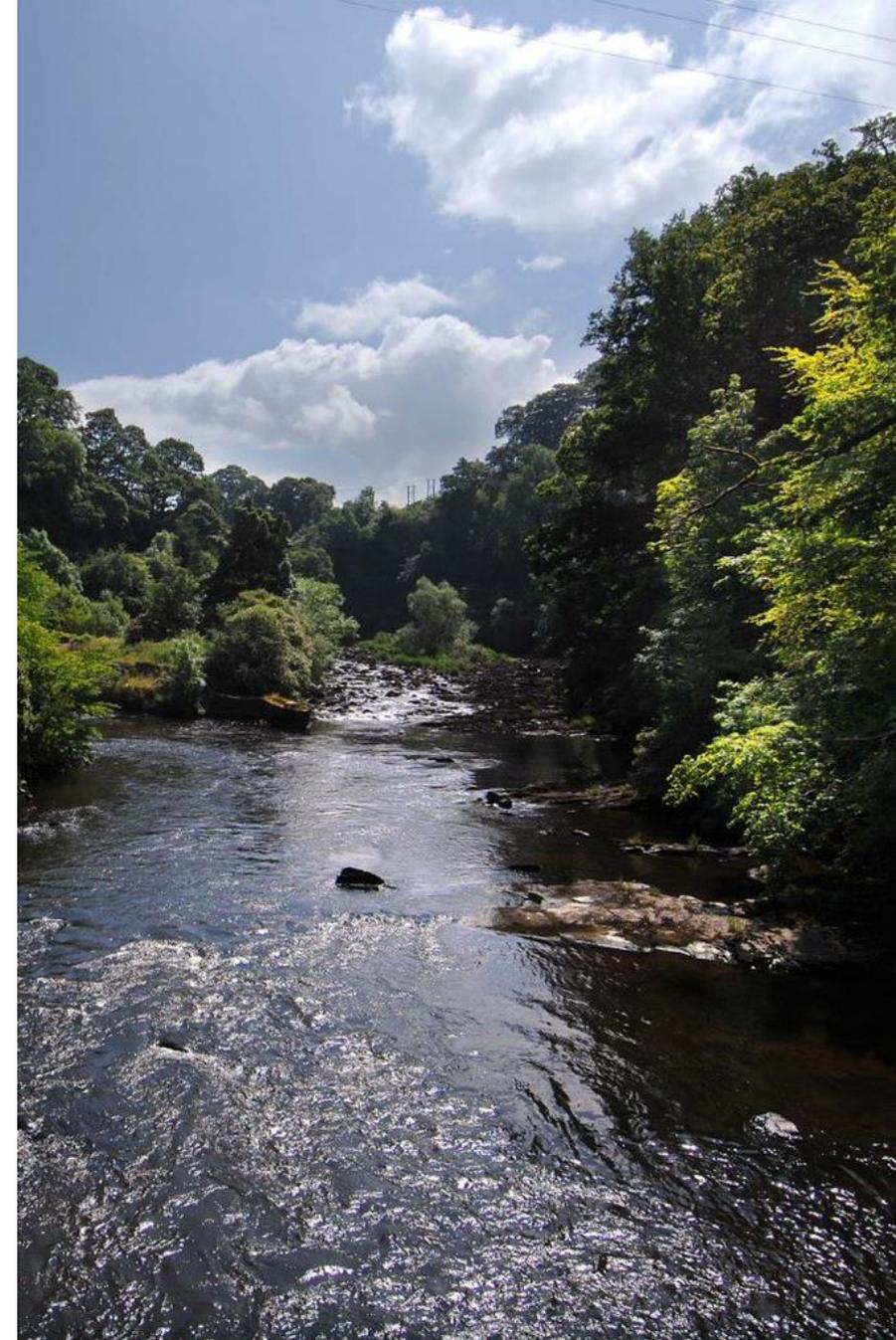
Reduction in NOx, SOx and particulates  
Carbon Disclosure Programme

### Social

Supporting 17,500 UK jobs  
Participant in UN Global Compact

### Governance

Long-term remuneration aligned with strategy  
Engagement with institutional governance teams



# CAPACITY MARKET

## **European Commission commenced formal investigation**

Opening decision to follow shortly

## **Government to update on collection process**

Payments to be collected by energy suppliers

## **Drax position**

Expect market to be re-instated as before or similar

Retrospective payment for capacity



# POWER GENERATION

## FLEXIBLE, LOW CARBON AND RENEWABLE GENERATION SUPPORTING UK POWER SYSTEM

### Good operational performance

Q1 outages mitigated by optimised generation and supply chain

Strong availability performance (April – December)

- 97% availability on CfD unit (January – December)

### Increase in biomass operations

Successful conversion of fourth biomass unit

6% increase in renewable generation

12% of UK's renewable generation

### Focus on flexible operation

Growing system management cost, opportunity for flexible assets

2019 – early benefits of portfolio optimisation

Adjusted EBITDA

£232m

(2017: £238m)

Biomass

13.8TWh

(2017: 13.0TWh)

Coal

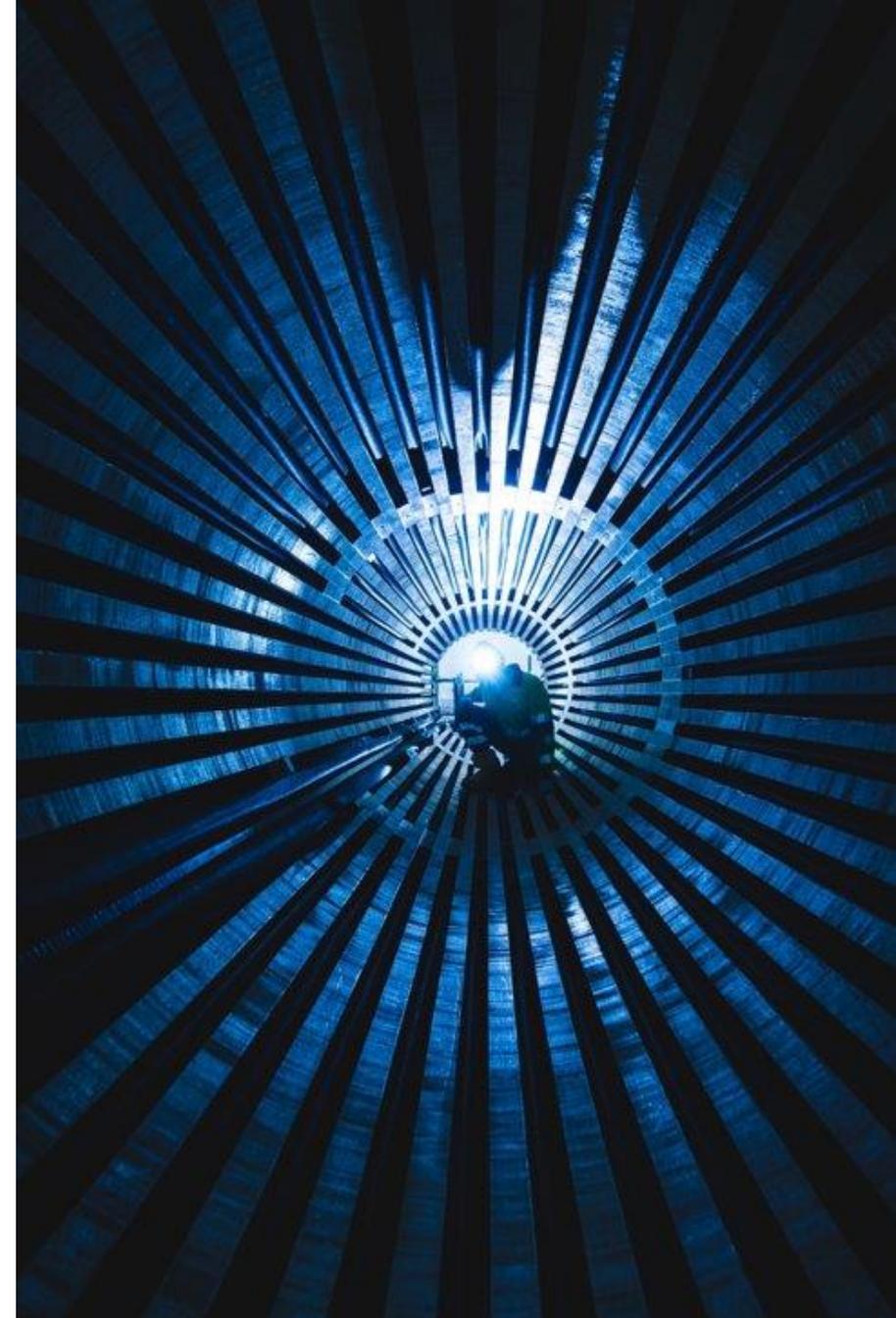
4.5TWh

(2017: 7.0TWh)

Biomass Availability

91%

(2017: 79%)



# PELLET PRODUCTION

## TARGET GOOD QUALITY PELLETS AT LOWEST COST

### Strong growth in output and earnings

64% increase in pellet output

10% reduction in pellet cost

LaSalle Bioenergy fully commissioned and performing well

Relocation of administration from Atlanta to Monroe

Adjusted EBITDA

£21m

(2017: £6m)

Pellet Production

1.3Mt

(2017: 0.8Mt)

Pellet Capacity

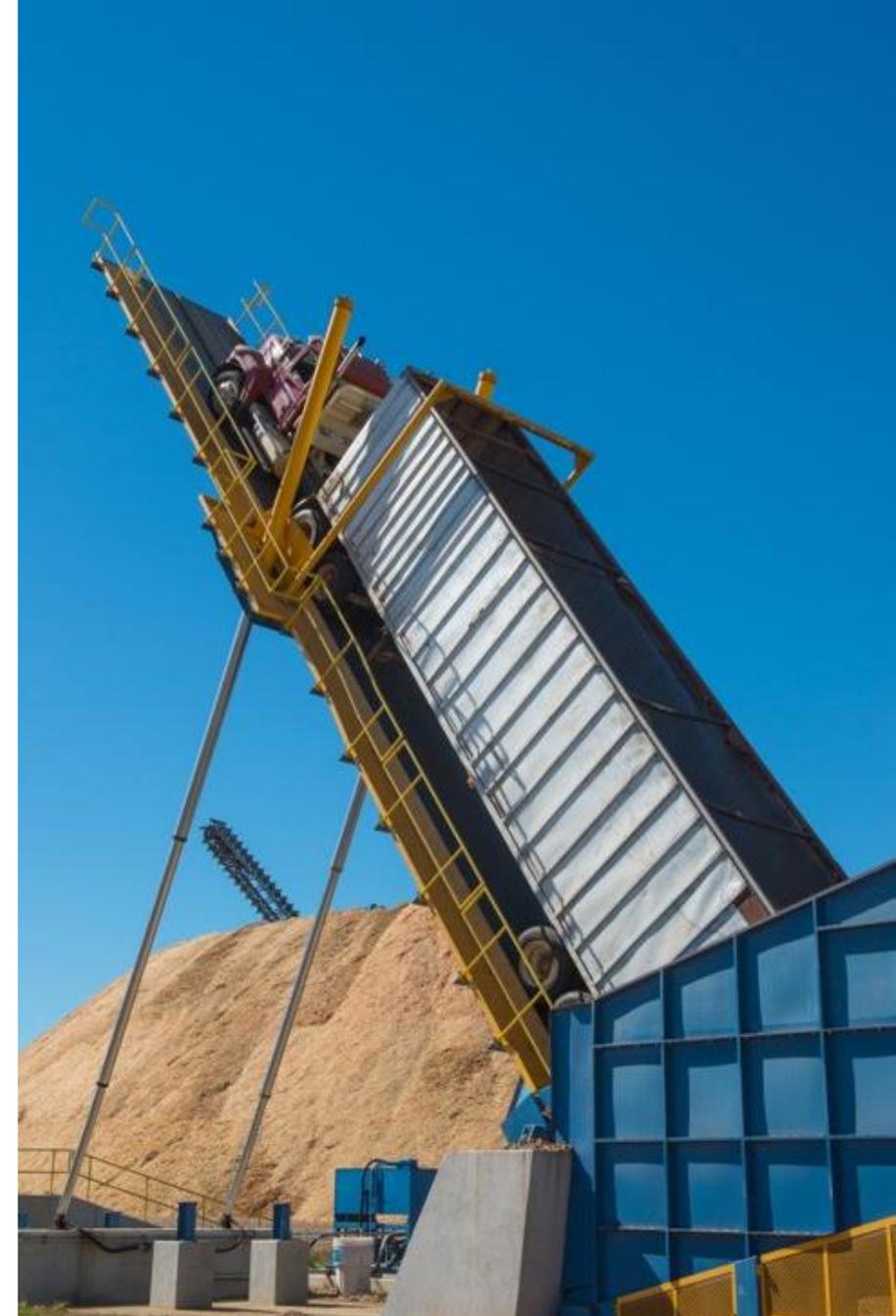
1.5Mt

(2017: 1.1Mt)

Pellet Cost

\$9.4/GJ

(2017: \$10.4/GJ)



# B2B ENERGY SUPPLY

## GROWTH IN GROSS PROFIT IN A CHALLENGING YEAR

### Challenging conditions

Mutualisation of renewable costs associated with competitor failure  
Higher gas costs due to weather and mutualisation

### Increase in bad debt expense

### Investment in systems

Improve efficiency and reduce cost  
Opportunities created by smart meters

### Good growth in gross profit and customer meters

#### Gross Profit

£143m

(2017: £117m)

#### Adjusted EBITDA

£28m

(2017: £29m)

#### Power Sales

20.9TWh

(2017: 18.1TWh)

#### Gas Sales

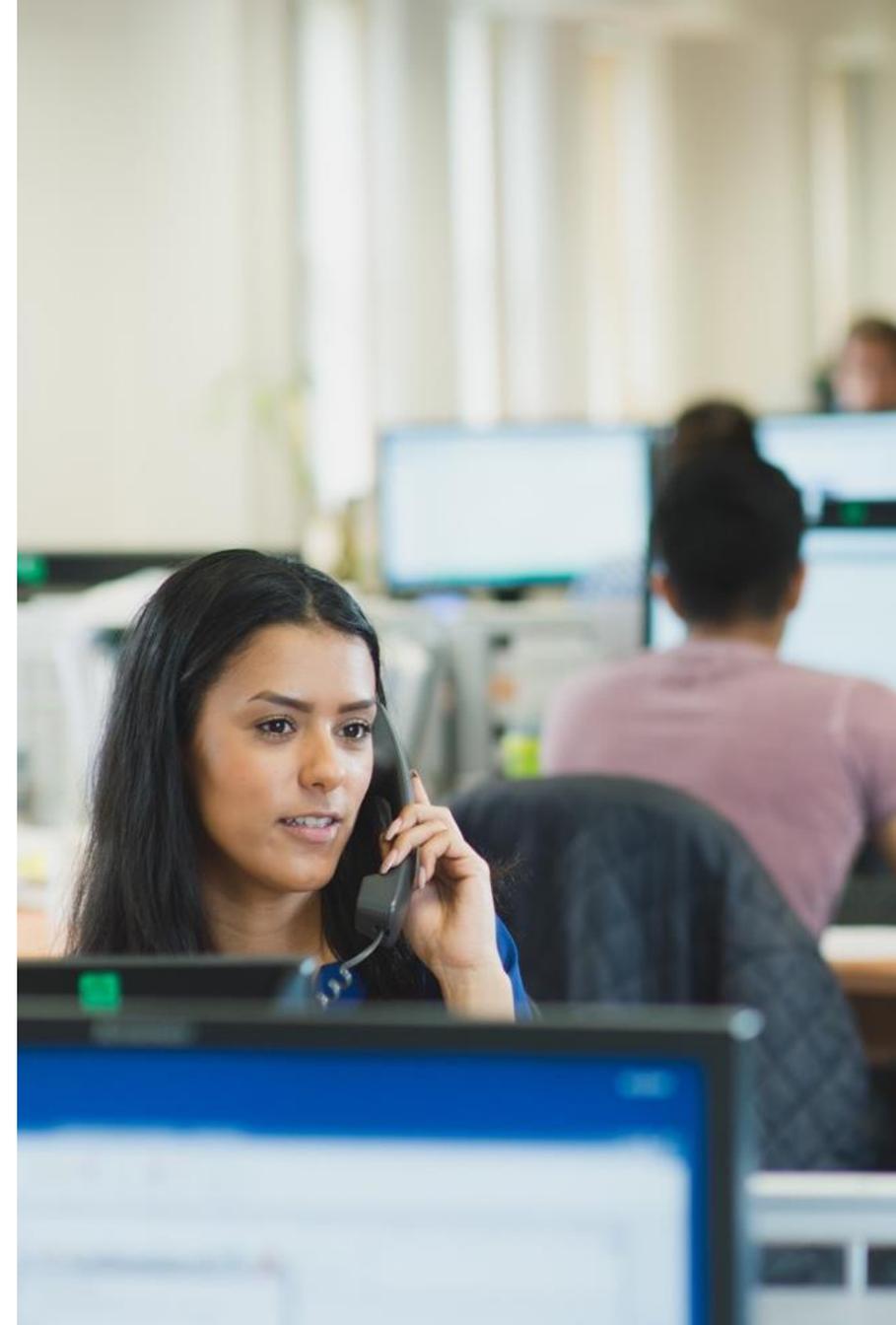
3.0TWh

(2017: 2.0TWh)

#### Meters

396,000

(2017: 376,000)





# FINANCIAL REVIEW

ANDY SKELTON  
CHIEF FINANCIAL OFFICER



# FINANCIAL HIGHLIGHTS

GOOD FINANCIAL PERFORMANCE, STRONG BALANCE SHEET

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

**£250m**

(2017: £229m)

Net Debt December 2018<sup>(2)</sup>

**£319m**

(December 2017: £367m)

Net Debt to Adj. EBITDA<sup>(3)</sup>

**1.3x**

(31 December 2017: 1.6x)

Net Cash From Operating Activities

**£311m**

2017: £315m

Proposed Final Dividend

**8.5p/share**

(£34m)

(2017 : 7.4p/share, £30m)

Total Dividend

**14.1p/share**

(£56m)

(2017: 12.3p/share, £50m)

Share Buy Back Complete<sup>(4)</sup>

**£50m**

(13.8m shares, £3.61 p/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 remeasurements
- 2) Cash and short-term investments of £289m less borrowings of £608m
- 3) The acquisition of ScottishPower Generation for an initial net consideration of £687m was a payable at year end and paid in January 2019
- 4) Completed January 2019

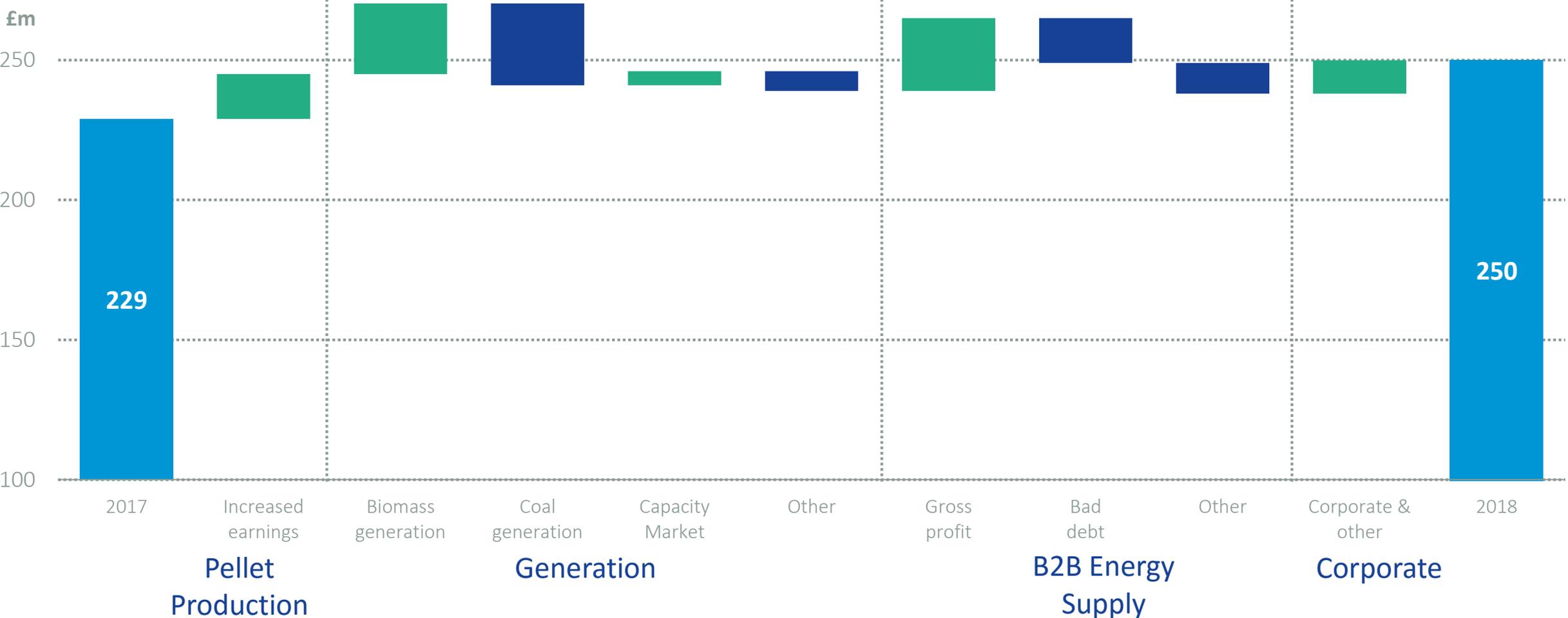
# FINANCIAL REVIEW

## INCOME STATEMENT HIGHLIGHTS

Adjusted Results <sup>(1)</sup>	2018 £m	2017 £m
Revenue	4,237	3,685
Adjusted EBITDA	250	229
Operating profit	76	47
Net finance cost	(39)	(42)
Tax and other	5	(2)
<b>Profit after tax</b>	<b>42</b>	<b>3</b>
Basic earnings per share (pence)	10.4	0.7

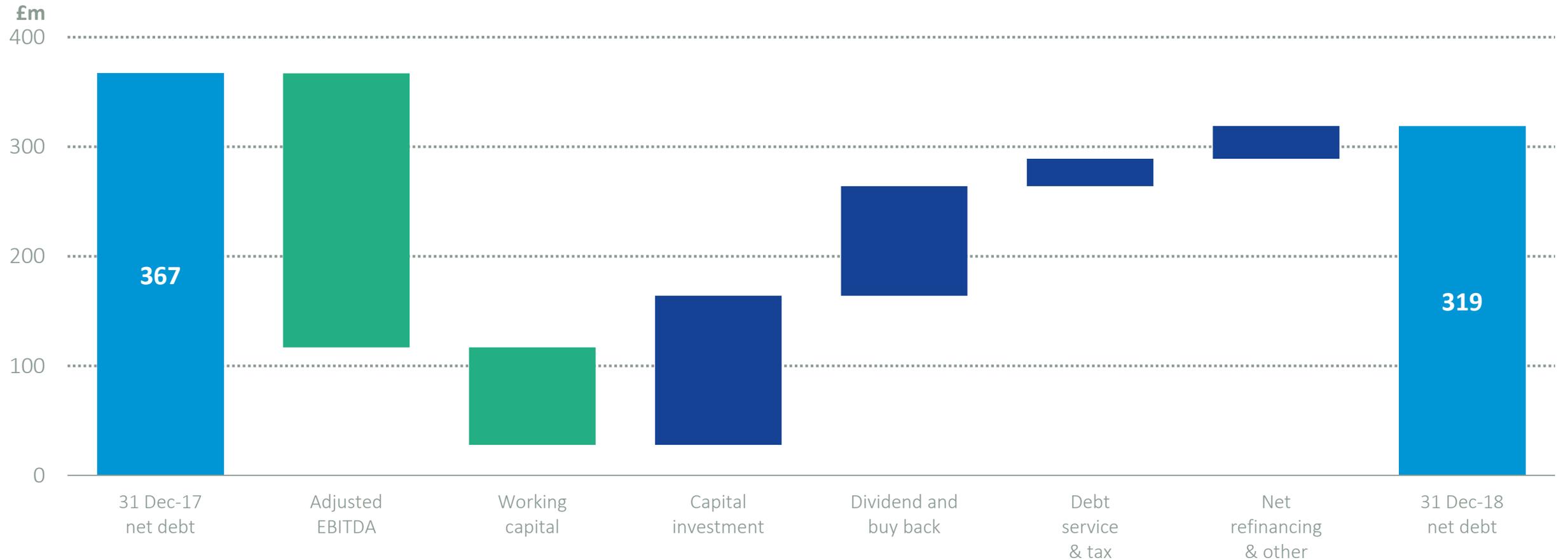
1) Adjusted Results are stated after adjusting for exceptional items (including acquisition and restructuring costs, asset obsolescence charges and debt restructuring costs), and certain remeasurements. A full Income Statement is presented on this basis in the appendix

# ADJUSTED EBITDA BRIDGE 2017 – 2018



# NET DEBT

## STRONG CASH GENERATION



# CAPITAL INVESTMENT

2018 Actual	Key Projects	Investment
Maintenance	Maintain operational performance	£55m
	ScottishPower Generation	-
Enhancement	Customer & IT platform and smart compliance LaSalle rail spur	£40m
Strategic	U4 conversion and development of gas projects	£35m
Other		£12m
<b>Total</b>		<b>£142m</b>

2019 Current Estimate	Key Projects	Investment
Maintenance	Maintain operational performance	£60m
	ScottishPower Generation	£30-35m
Enhancement	Efficiency improvement, including turbine upgrade Customer & IT platform and smart compliance	£40m
Strategic	Biomass self-supply capacity expansion Development of gas options	£35-45m
Other		£5-10m
<b>Total</b>		<b>£170-190m</b>



# BALANCE SHEET

## STRUCTURES IN PLACE TO SUPPORT GROWTH



### ScottishPower Generation acquisition (December 2018)

£687m initial net consideration

£550m drawn from bank facility (January 2019)

Balance of consideration from existing cash

### Refinancing

Expect to refinance bank facility during 2019

### \$300m fixed rate bond issue completed (May 2018)

Proceeds used to repay £200m floating rate bonds

Removal of floating rate exposure

Attractive all-in rate on conversion to GBP

### Maintain credit rating

Supportive of trading strategy

Robust to low points in business cycle

### Target 2x net debt to Adjusted EBITDA by end of 2019

Instrument	Description	Maturity
Bonds	\$300m Senior Secured Notes	2025
	£350m Senior Secured Notes	2022
Revolving Credit Facility	£350m RCF, including index-linked term loan	2021 (+1)
Bank Facility	£725m facility (£550m drawn Jan-19)	2020

# CAPITAL ALLOCATION

## COMMITMENT TO DISCIPLINED CAPITAL ALLOCATION

Maintain credit rating

Invest in growing core business activities

Pay a sustainable and growing dividend

Return surplus capital to shareholders

Full Year Dividend

**£56m**

(2017: £50m)

2018 Final Dividend

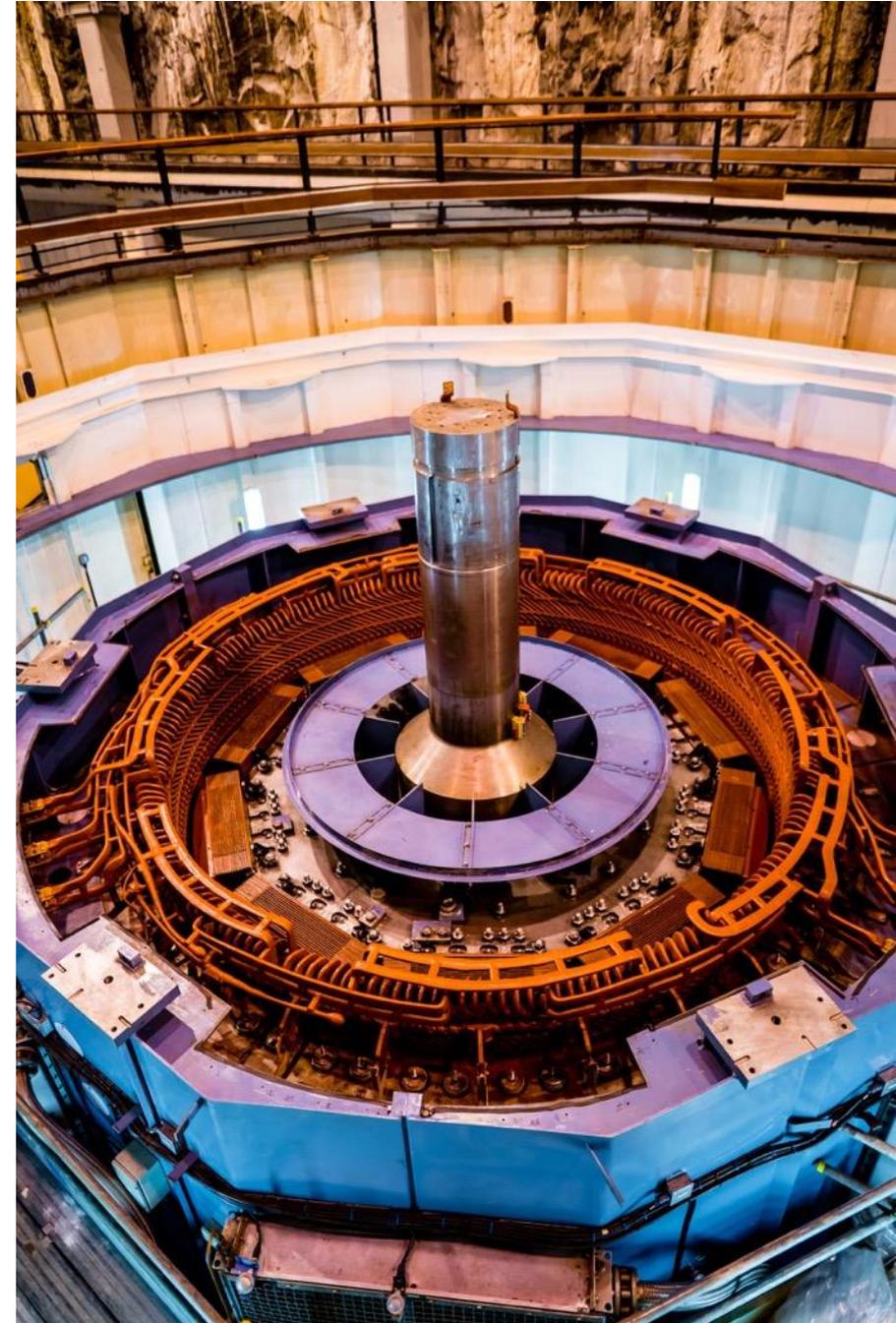
**£34m**

(2017: £30m)

Share Buy Back

**£50m**

(Completed Jan-19)



# CAPACITY MARKET

## 2019 capacity payments

Expect market to be re-established as is or similar

Retrospective payment for capacity

## Accounting treatment

Recognised in accounts on receipt

## Iberdrola risk sharing mechanism

Up to £26m of protection

Adjustment to purchase price

Generation	2019
Existing generation	£21m
ScottishPower Generation	£47m
<b>Adjusted EBITDA impact if no capacity payments received</b>	<b>£68m</b>
Risk sharing mechanism	£(26)m
<b>Net cash impact on Generation if no capacity payments received</b>	<b>£42m</b>



# SUMMARY AND OUTLOOK

**Good financial performance**

**Progress with strategy**

**Increasing earnings visibility**

**Strong balance sheet**

**Development of options for investment in growth**



# STRATEGY UPDATE



# ENABLING A ZERO CARBON, LOWER COST ENERGY FUTURE

## **Absolute increase in demand for electricity**

Decarbonisation of heating and transport

## **Globally 70-85% of electricity from intermittent renewables by 2050<sup>(1)</sup>**

>15% from complementary flexible sources – biomass, hydro, storage

## **How Drax is helping**

Renewable biomass generation and supply chain

Flexible generation to support the energy system

Giving customers control of their energy

1) Intergovernmental Panel on Climate Change

# BIOMASS HAS AN IMPORTANT ROLE TO PLAY ENABLING A ZERO CARBON, LOWER COST ENERGY FUTURE

## Growing demand for flexible, low carbon and renewable energy sources

Biomass is an important source of system stability and security of supply

Biomass is only large scale flexible renewable source of power

## Supports forest growth and health

Commercially managed forestry consumes more CO<sub>2</sub> than unmanaged

- Primary market is construction not biomass
- Biomass generation uses low grade wood

Biomass supports long-term investment in forest stocks

## Opportunity for large scale carbon negative generation

Required to achieve UK decarbonisation targets

Attractive option subject to appropriate regulatory framework



Department for  
Business, Energy  
& Industrial Strategy

*“[BECCS] has the potential to make huge strides in our efforts to tackle climate change while kick-starting an entirely new cutting-edge industry in the UK. World-firsts like this will help us to realise our ambition of having a first operational plant by the mid-2020s as we continue to seize the opportunities of moving to a greener, cleaner economy – a key part of our modern Industrial Strategy.”*

Claire Perry  
Minister for Energy and Clean Growth  
February 2019

# BIOMASS OPTIMISATION AND COST REDUCTION

## TARGETING <£50/MWH BY 2027

Area of Activity	Description
Reduce feedstock cost	Use a greater proportion of lower cost residues
Reduce process and transport cost	Eliminate stages of production process Economies of scale in logistics
Improve plant performance	Operations, thermal efficiency and capacity
Introduce new technology	Widen fuel envelope Research & Innovation

### Biomass Self-supply (2019)

Sawmill co-location  
LaSalle rail spur  
Capacity expansion

### Generation (2019-2021)

Increased thermal efficiency  
Opportunities for cost reduction as existing contracts roll off

Opportunities across the supply chain to deliver improvement and savings



# STRATEGIC PROJECTS

## OPTIONS FOR INVESTMENT AND LONG-TERM GROWTH



Projects	Energy Supply	Pellet Production	Biomass Cost Reduction	Repower	OCGT	DHC II	Long-term Opportunities
Technology							
Description	<p><b>Operating systems</b></p> <ul style="list-style-type: none"> <li>Reduce operating cost</li> <li>Increase margins</li> <li>Increase market share</li> <li>Enhanced customer proposition</li> </ul>	<p><b>Up to 30% self-supply</b></p> <ul style="list-style-type: none"> <li>Expand plants</li> <li>Acquire plants</li> <li>Build plants</li> </ul>	<p><b>&lt;£50/MWh</b></p> <ul style="list-style-type: none"> <li>Targeting &gt;30% reduction in biomass cost by 2027</li> <li>c.£75/MWh to &lt;£50/MWh</li> </ul>	<p><b>2 x 1.8GW</b></p> <ul style="list-style-type: none"> <li>Progressing planning application</li> <li>Expect planning approval in 2019</li> <li>Development subject to capacity agreement</li> </ul>	<p><b>4 x 0.3GW</b></p> <ul style="list-style-type: none"> <li>Two sites with planning consent</li> <li>Expect planning approval for remaining two sites in 2019</li> <li>Development subject to capacity agreement</li> </ul>	<p><b>1 x 1.8GW</b></p> <ul style="list-style-type: none"> <li>Planning consent awarded</li> <li>Development subject to capacity agreement</li> </ul>	<p><b>BECCS<sup>(1)</sup></b> Carbon negative generation</p> <ul style="list-style-type: none"> <li>Pilot scheme</li> <li>£1m equity in C-Capture JV</li> </ul>  <p><b>Cruachan</b> Up to 0.4GW expansion</p>

1) BioEnergy Carbon Capture & Storage

# 2019 OUTLOOK AND PRIORITIES

**Integration of ScottishPower Generation**

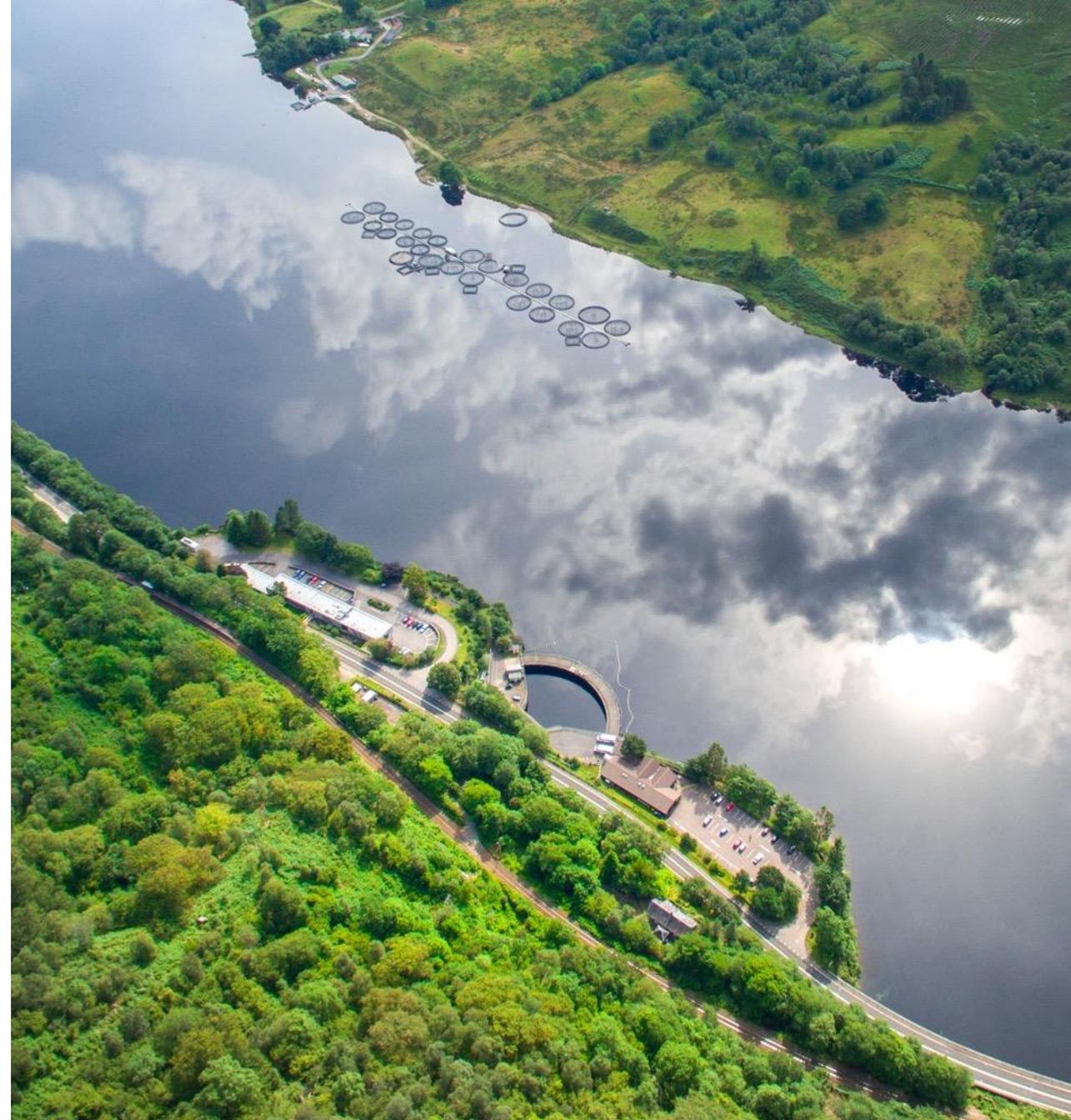
**Target 2x net debt to Adjusted EBITDA by end of 2019**

**Cost reduction and increased capacity in US**

**Optimisation of generation portfolio**

**Energy Supply investment in next generation systems**

**Development of attractive options for growth**



QUESTIONS



# APPENDICES

1. Acquisition of ScottishPower Generation
2. Group Income Statement
3. 2017 Restatement
4. Group Cash Flow Statement
5. Power Generation – EBITDA
6. Pellet Production – EBITDA
7. B2B Energy Supply – EBITDA
8. Consolidated EBITDA
9. Contracted Power Sales
10. Forward Commodity Prices
11. Forward Spreads



# SCOTTISHPOWER GENERATION

## FLEXIBLE, LOW CARBON AND RENEWABLE GENERATION PORTFOLIO

### Strategic fit

Aligned with UK energy needs and Drax strategy

### A unique and complementary portfolio

2.6GW capacity

- 0.4GW pumped storage
- 0.1GW hydro
- 2.1GW CCGT

### Strong financial attributes

Initial net consideration £687m<sup>(1)</sup>

Expected returns significantly in excess of WACC

High proportion of non-commodity related earnings

### 2019

Integration progressing well

1) £702m less customary net debt and working capital adjustments



# GROUP INCOME STATEMENT



In £m	2018			2017		
	Adjusted	Exceptional	Total	Adjusted	Exceptional	Total
Revenue	4,237	(8)	4,229	3,685	(1)	3,684
Cost of sales	(3,636)	46	(3,590)	(3,140)	(176)	(3,316)
<b>Gross profit</b>	<b>601</b>	<b>38</b>	<b>639</b>	<b>545</b>	<b>(177)</b>	<b>368</b>
<b>Adjusted EBITDA</b>	<b>250</b>	-	-	<b>229</b>	-	-
Depreciation	(129)	-	(129)	(123)	-	(123)
Amortisation	(45)	-	(45)	(44)	-	(44)
Loss on disposal	(4)	-	(4)	(15)	-	(15)
Asset obsolescence charge	-	(27)	(27)	-	-	-
Other gains / (losses)	4	-	4	(0)	-	(0)
Acquisition and restructuring costs	-	(28)	(28)	-	(8)	(8)
<b>Operating profit / (loss)</b>	<b>76</b>	<b>(16)</b>	<b>60</b>	<b>47</b>	<b>(185)</b>	<b>(138)</b>
Foreign exchange gains and losses	-	-	-	(11)	-	(11)
Net interest charge	(39)	(7)	(46)	(31)	(24)	(55)
<b>Profit / (loss) before tax</b>	<b>37</b>	<b>(23)</b>	<b>14</b>	<b>5</b>	<b>(209)</b>	<b>(204)</b>
Tax	5	1	6	(2)	38	36
<b>Profit / (loss) after tax</b>	<b>42</b>	<b>(22)</b>	<b>20</b>	<b>3</b>	<b>(171)</b>	<b>(168)</b>
<b>Basic earnings per share (pence)</b>	<b>10.4</b>	<b>(5.4)</b>	<b>5.0</b>	<b>0.7</b>	<b>(42.0)</b>	<b>(41.3)</b>

# 2017 RESTATEMENT



## Adoption of IFRS 9 and restatements of 2017 results

Certain amounts have been reclassified on the face of the Income Statement and Reserves:

### Income Statement reclassifications

- Revenue and cost of sales adjusted to include gains and losses on associated derivative contracts
- Impairment of trade receivables disclosed on the face of the Income Statement

### Reclassifications to Reserves

- Cost of hedging (and associated deferred tax) recognised as a component of reserves

In £m	2017 – Previously Reported	Restatement – P&L Classification	Restatement – To Reserves	2017 – Current Year Disclosure
Revenue	3,685	(1)	-	3,684
Cost of sales	(3,140)	(176)	-	(3,316)
<b>Gross profit</b>	<b>545</b>	<b>(177)</b>	-	<b>368</b>
Operating & administrative expense	(316)	19	-	(297)
Impairment of trade receivables	-	(19)	-	(19)
<b>Adjusted EBITDA</b>	<b>229</b>	-	-	-
Acquisition & restructuring costs	(8)	-	-	(8)
Depreciation	(123)	-	-	(123)
Amortisation	(44)	-	-	(44)
Loss on disposal	(15)	-	-	(15)
Unrealised gains / (losses) on derivative contracts	(156)	177	(21)	-
<b>Operating loss</b>	<b>(117)</b>	-	<b>(21)</b>	<b>(138)</b>
Cost of debt restructure	(24)	-	-	(24)
Net interest charge	(31)	-	-	(31)
FX losses	(11)	-	-	(11)
<b>Loss before tax</b>	<b>(183)</b>	-	<b>(21)</b>	<b>(204)</b>
Taxation	32	-	4	36
<b>Loss after tax</b>	<b>(151)</b>	-	<b>(17)</b>	<b>(168)</b>

# GROUP CASH FLOW STATEMENT



In £m	2018	2017
Adjusted EBITDA	250	229
Working capital / other	86	147
Debt service	(24)	(47)
Tax	(1)	(14)
<b>Net cash from operating activities</b>	<b>311</b>	<b>315</b>
Capital investment – maintenance and enhancement	(132)	(127)
Capital investment – strategic		(428)
Net refinancing	(13)	257
Dividend	(53)	(22)
Share buy back	(47)	
Other	1	(1)
<b>Net cash flow</b>	<b>67</b>	<b>(6)</b>
Cash and cash equivalents at the beginning of the period	222	228
Net cash flow	67	(6)
<b>Cash and cash equivalents at the end of the period</b>	<b>289</b>	<b>222</b>

# POWER GENERATION – ADJUSTED EBITDA



In £m	2018	2017
<b>Revenue<sup>(1)</sup></b>		
Power sales	1,903	1,789
ROC sales	981	627
CfD income	322	248
Ancillary services income	19	31
Fuel sales	52	8
Other income	55	17
	<b>3,332</b>	<b>2,720</b>
<b>Cost of sales</b>		
Generation fuel costs	(1,162)	(1,100)
Fuel sold	(55)	(7)
ROC support	442	424
Carbon tax	(68)	(101)
Cost of carbon allowances	(22)	(33)
ROCs sold or utilised	(967)	(590)
Cost of power purchases	(1,046)	(852)
Grid charges	(58)	(63)
	<b>(2,936)</b>	<b>(2,322)</b>
<b>Gross profit</b>	<b>396</b>	<b>398</b>
Operating costs	(164)	(160)
<b>Adjusted EBITDA</b>	<b>232</b>	<b>238</b>

# PELLET PRODUCTION – ADJUSTED EBITDA



In £m	2018	2017
Revenues	214	136
Cost of sales	(149)	(97)
<b>Gross profit</b>	<b>65</b>	<b>39</b>
Operating costs	(44)	(33)
<b>Adjusted EBITDA</b>	<b>21</b>	<b>6</b>

# B2B ENERGY SUPPLY – ADJUSTED EBITDA



In £m	2018	2017
Revenue	2,242	1,999
<b>Cost of sales</b>		
Cost of power and gas purchases	(952)	(884)
Grid charges	(460)	(436)
Other costs	(687)	(562)
	<b>(2,099)</b>	<b>(1,882)</b>
<b>Gross profit</b>	<b>143</b>	<b>117</b>
Operating costs	(115)	(88)
<b>Adjusted EBITDA</b>	<b>28</b>	<b>29</b>

# CONSOLIDATED ADJUSTED EBITDA



2018 £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment Adjusted EBITDA	232	28	21	(3)	278
Central costs					(28)
<b>Consolidated Adjusted EBITDA</b>					<b>250</b>

2017 £m	Power Generation	B2B Energy Supply	Pellet Production	Adjustments	Consolidated
Segment Adjusted EBITDA	238	29	6	(10)	263
Central costs					(34)
<b>Consolidated Adjusted EBITDA</b>					<b>229</b>

# CONTRACTED POWER SALES



Contracted at 20 February 2019	2019	2020	2021
Power sales (TWh)	16.3	8.9	3.4
- Fixed price power sales (TWh)	16.3	8.6	2.9
At an average achieved price (per MWh)	£55.9	£53.3	£50.1
- Gas hedges (TWh)	-	0.3	0.5
At an achieved price (per therm)	-	55.9p	52.4p

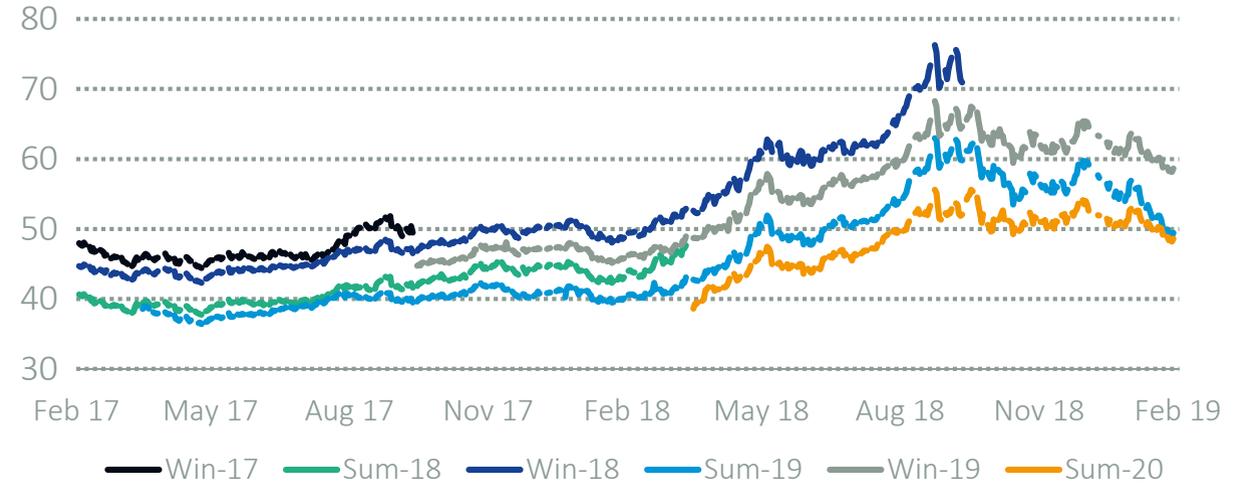
# FORWARD COMMODITY PRICES



## EU ETS Carbon (€/t)



## Power Price (£/MWh)



## API2 Coal Price (\$/t)



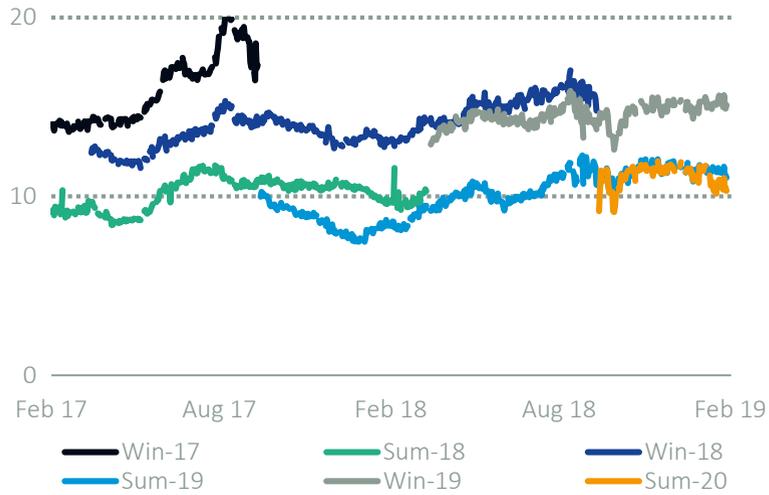
## NBP Gas Price (p/therm)



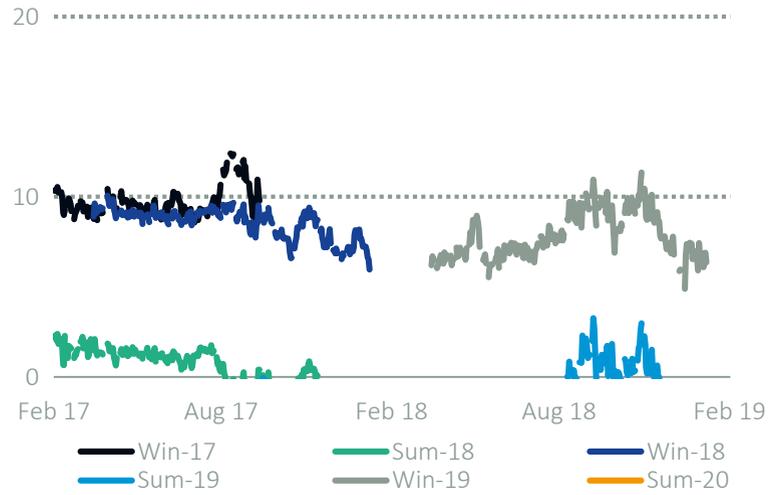
# FORWARD SPREADS



Peak CSS (£/MWh)



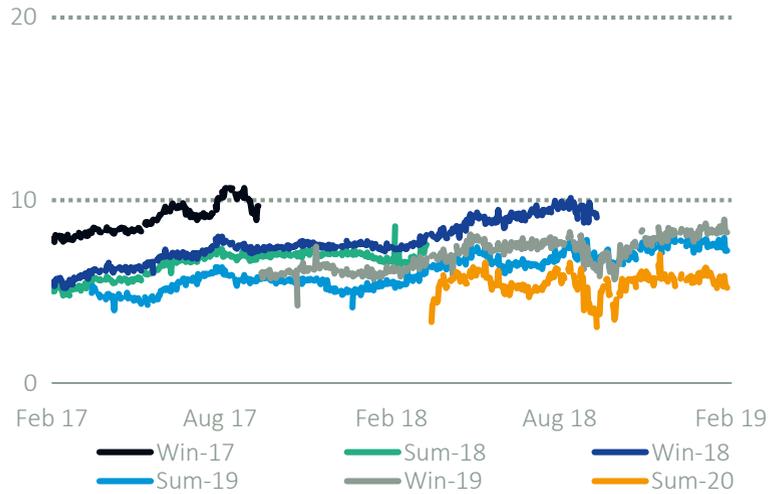
Peak DGS (£/MWh)



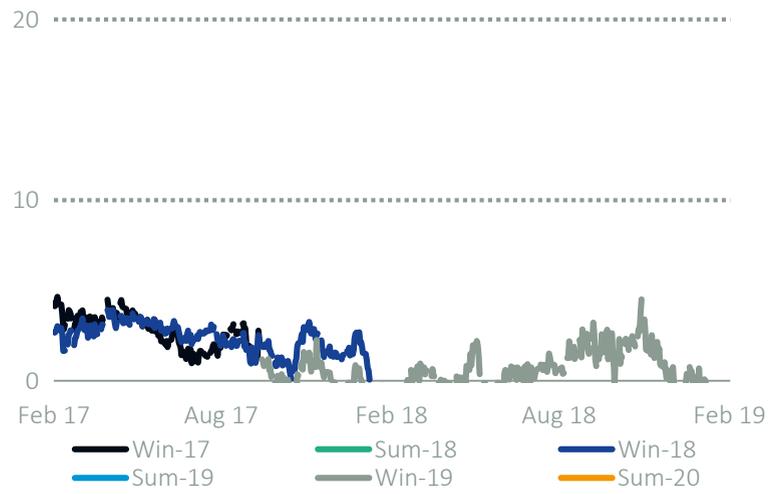
Peak ROC Bark Spread (£/MWh)



Baseload CSS (£/MWh)



Baseload DGS (£/MWh)



Baseload ROC Bark Spread (£/MWh)





# FULL YEAR RESULTS

**12 Months Ended 31 December 2018**

26 February 2019