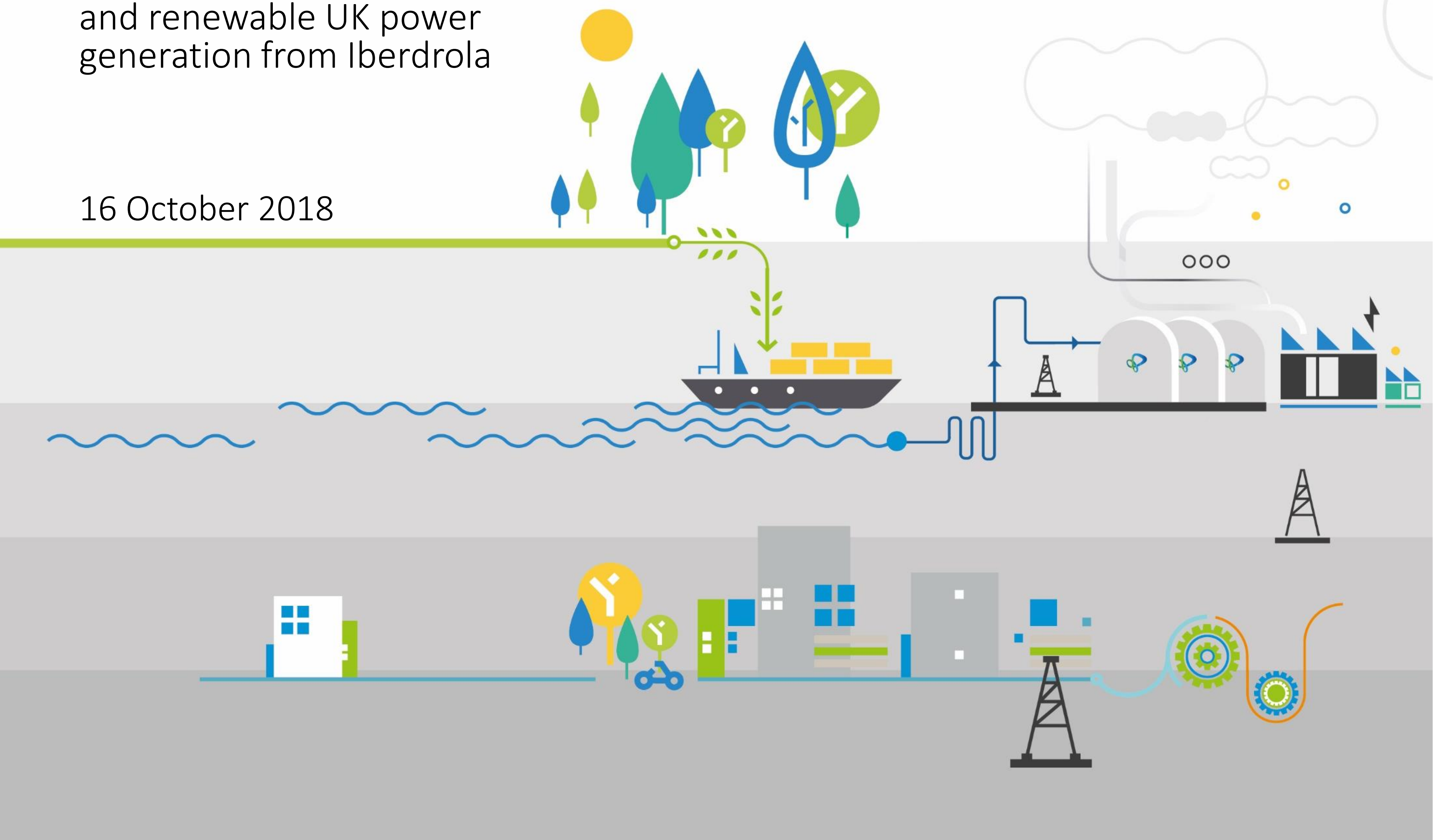
Drax Group

Acquisition of flexible, low-carbon and renewable UK power generation from Iberdrola

16 October 2018



Agenda

Introduction

Will Gardiner – Group CEO

Portfolio

Andrew Koss – CEO Drax Power

Funding and Process

Den Jones – Interim Group CFO

Summary

Will Gardiner

Executive Summary

Acquisition of flexible, low-carbon and renewable generation for £702m in cash

A unique and complementary portfolio

Pumped storage, hydro and gas-fired generation

Aligned with UK energy needs

Aligned with Drax generation strategy

Compelling strategic benefits

A strong financial case

Class 1 transaction

Subject to shareholder and also CMA approval

Acquisition of Generation Assets for £702m

A unique UK portfolio of flexible, low-carbon and renewable generation

Pumped storage

Cruachan (440MW)

Hydro

Galloway and Lanark run-of-river hydro (126MW)

Combined Cycle Gas Turbine

Damhead Creek (805MW)

Rye House (715MW)

Shoreham (420MW)

Blackburn Mill (60MW)

Daldowie

Biomass-from-waste (50kt)

2019 EBITDA forecast
£90-110m

High quality earnings
2/3 of 2019 gross profit from non-commodity sources

Funding
£725m debt facility agreed

Net debt / EBITDA
Around 2x by end of 2019

2.6GW of capacity
Multi-site and technology

c.260 operational staff

Completion
31 December 2018

Acquisition Aligned with Changing UK Energy System

Transition to a low-carbon economy requires flexible and low-carbon energy

More decarbonisation required to achieve 80% reduction by 2050[1]

Electrification of heating and transport

Absolute increase in power demand

Renewables will drive increased importance of flexible generation and system support

Intergovernmental Panel on Climate Change

- 85% of global energy can come from renewables
- Balance from flexible and low-carbon energy sources

Growing value from system support services

Increasing demand due to growth in renewables

(1) UK Government target

Compelling Strategic Benefits

Flexible, low-carbon and renewable generation and system support

Increased earnings potential aligned with system support needs

Biomass, pumped storage, hydro and gas are dispatchable assets

Optionality from new gas development

Expansion of Drax's flexible, low-carbon and renewable generation

Biomass, gas, pumped storage and hydro

Diversification of generation capacity

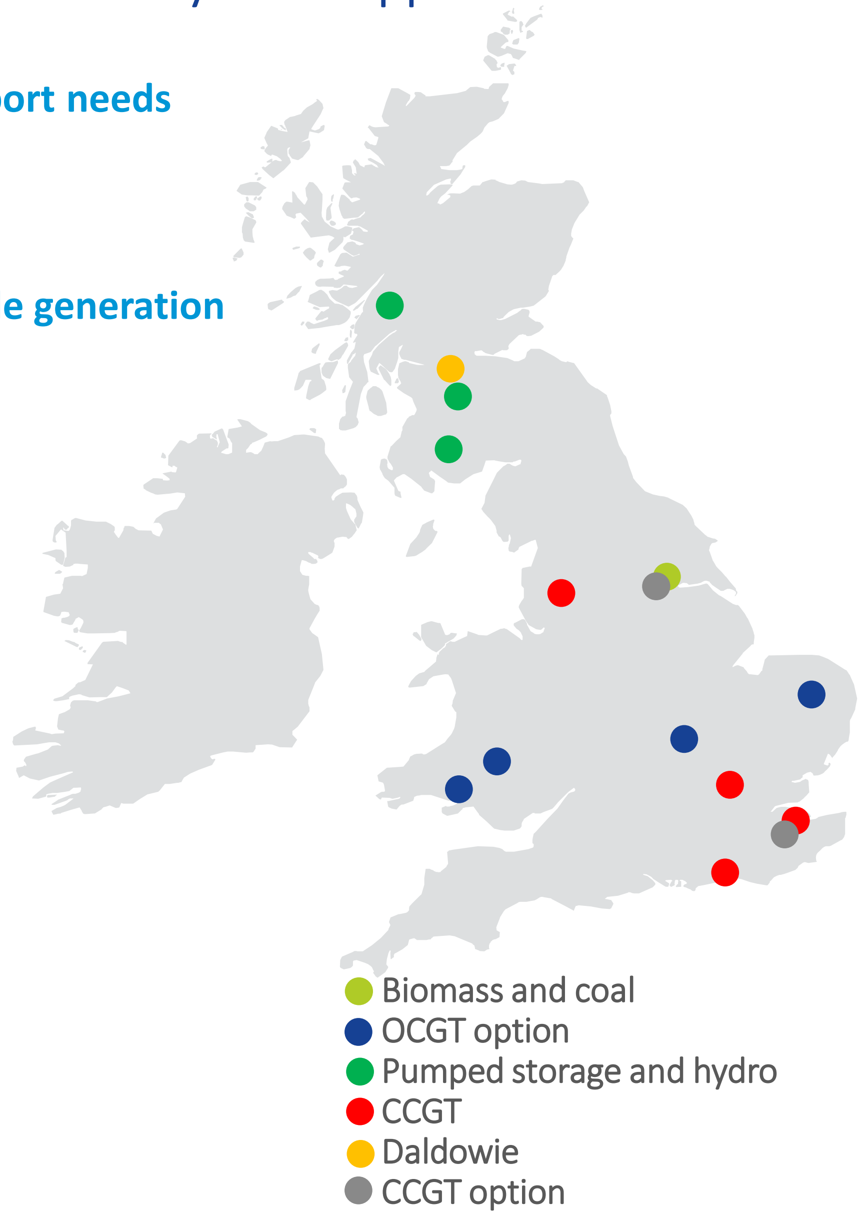
Multi-site, multi-technology operator

Portfolio benefits

Reduction in underlying commodity exposure

Leverage Group's operational and trading expertise

Strong engineering expertise



Financial Benefits
A strong financial case

Sustainable and high quality earnings

Two thirds of gross profit from non-commodity sources

- System support
- Index-linked ROCs and capacity payments
- Daldowie

Increased visibility of long-term earnings

Attractive financial returns

Expected returns significantly ahead of WACC

Highly accretive to underlying earnings in 2019

Debt bridge facility agreed

Net debt / EBITDA around 2x by end of 2019

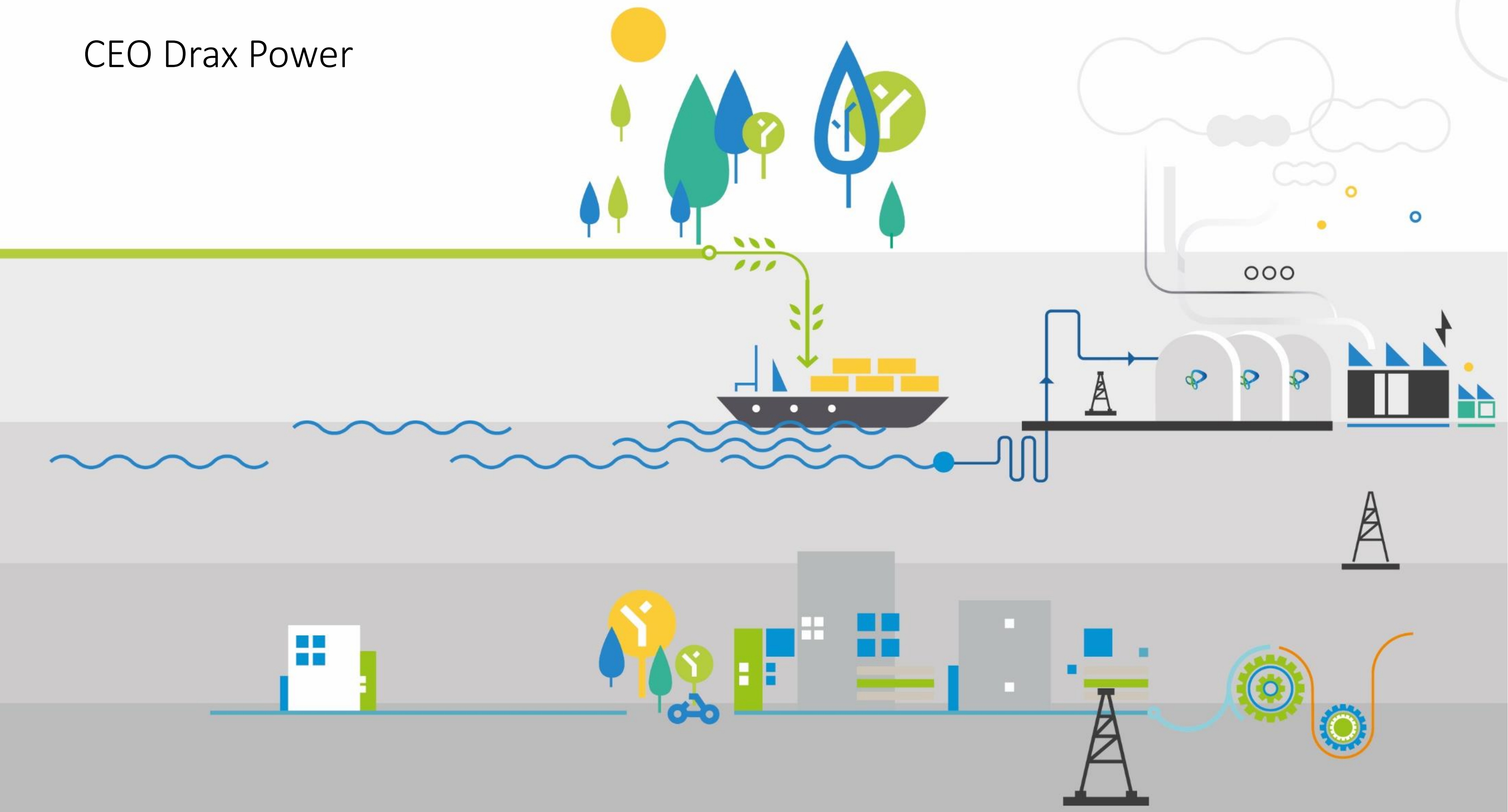
Supportive of credit rating and reduced risk profile of the Group

Strengthens ability to pay growing and sustainable dividend

Portfolio

Andrew Koss

CEO Drax Power



Pumped Storage

Large-scale storage and flexible low-carbon generation

Cruachan Power Station – 440MW

Highly flexible large-scale storage

- 2 x 120MW and 2 x 100MW
- Full load in 30 seconds

>35% of UK's pumped storage capacity by volume

- Long duration storage – operation of all units for over 16 hours

Strategic asset capable of providing a wide range of system support services

- Ancillary services
- Balancing market activities
- Contracted capacity payments – £35m (2019-2022)
- Power market activities

Run-of-River Hydro
Renewable generation and storage

Galloway and Lanark – 126MW

Flexible hydro with storage capabilities and renewable support

- Lanark – 17MW output
- Galloway – 109MW output – combined run-of-river and storage

Services and earnings

- ROC support extending to 2027
- Ancillary services
- Contracted capacity payments – £4m (2019-2022)
- Galloway includes a reservoir and dam system providing storage capabilities and peaking services
- Power market activities

Combined Cycle Gas Turbine
Strategically located system support and power generation

Damhead Creek, Rye House and Shoreham

Strategically located assets in South-east England

Flexible large-scale generation

- Damhead Creek (805MW), Rye House (715MW) and Shoreham (420MW)

Services and earnings

- System support services
- Contracted capacity payments – £127m (2019-2022)
- Positive grid access income
- Power market activities

Blackburn Mill (60MW)

Biomass

Daldowie biomass-from-waste

50kt plant

Processed Sludge Pellets (PSP) from waste water

Firm offtake contract with Scottish Water

Other Benefits

Attractive options

Damhead Creek II

Strong cultural fit

Trading portfolio benefits

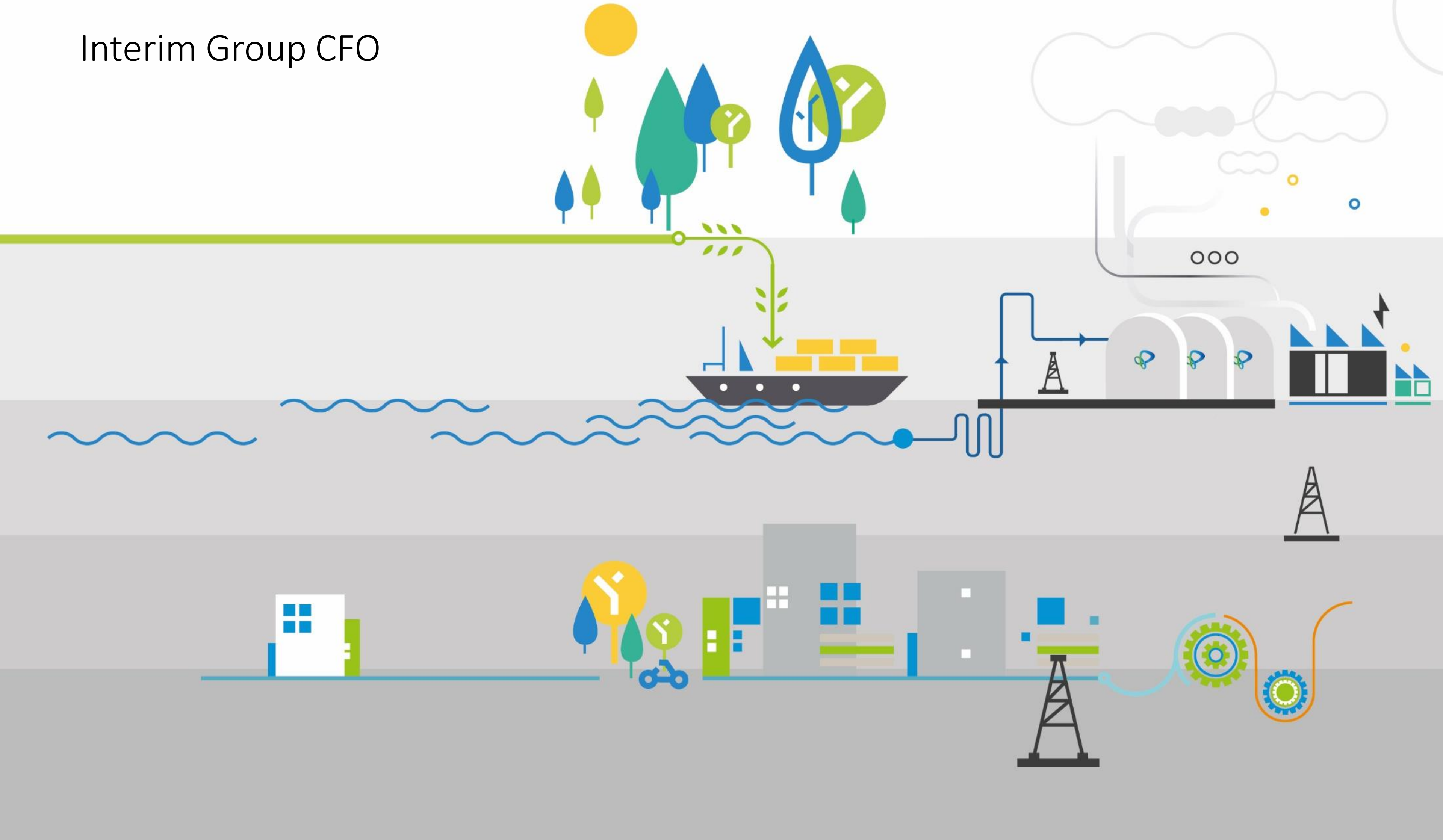
Reduced exposure to gas

People and engineering capabilities

Funding and Process

Den Jones

Interim Group CFO



Funding and Process

Funding

Debt bridge facility agreed

Competitively priced, below current cost of debt

Net debt / EBITDA around 2x by end of 2019

Supportive of credit rating and reduced risk profile

Assess options for long-term financing strategy in 2019

Dividend and capital allocation

Strengthens ability to pay a growing and sustainable dividend

Committed to capital allocation policy and current share buy back programme

Process

Binding agreement

Class 1 circular and notice of General Meeting

Completion 31 December 2018

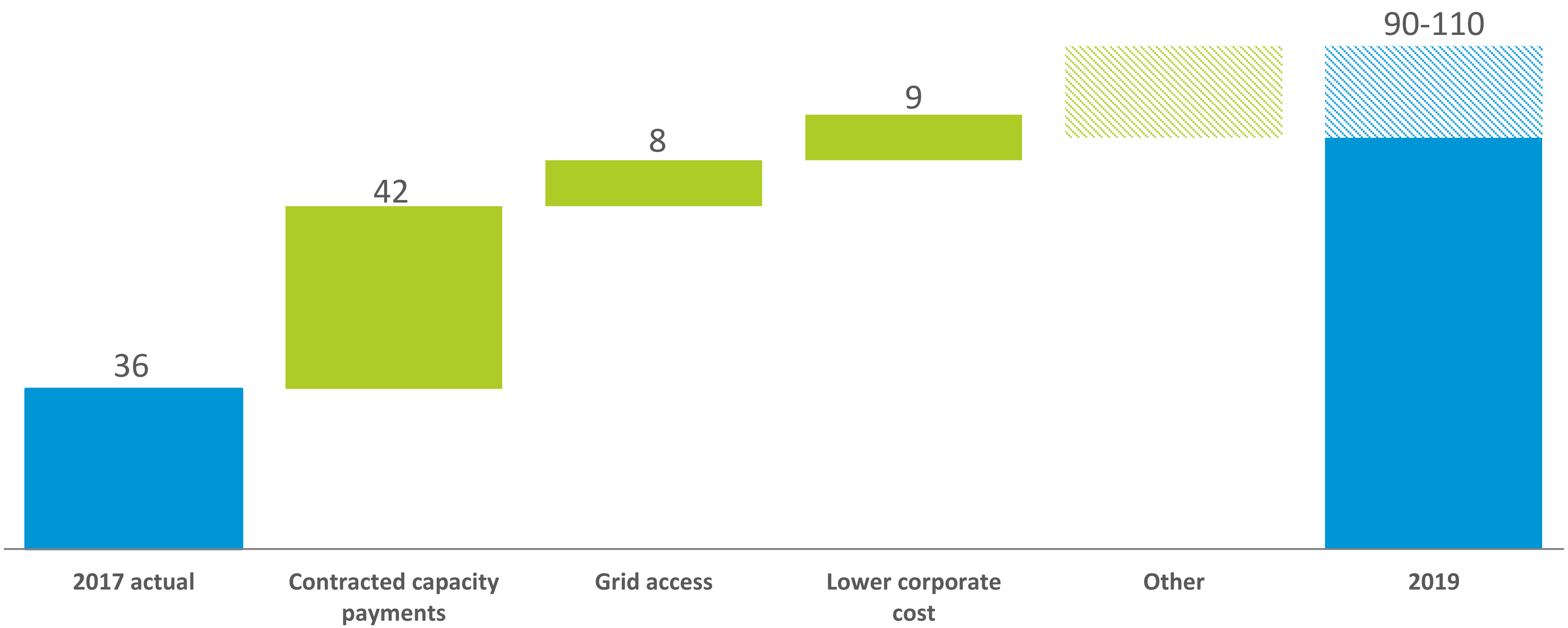
Conditions

CMA and shareholder approval

EBITDA 2017 to 2019

Significant increase in EBITDA – capacity payments, grid access, lower corporate recharge and growing demand for system support services and current power prices

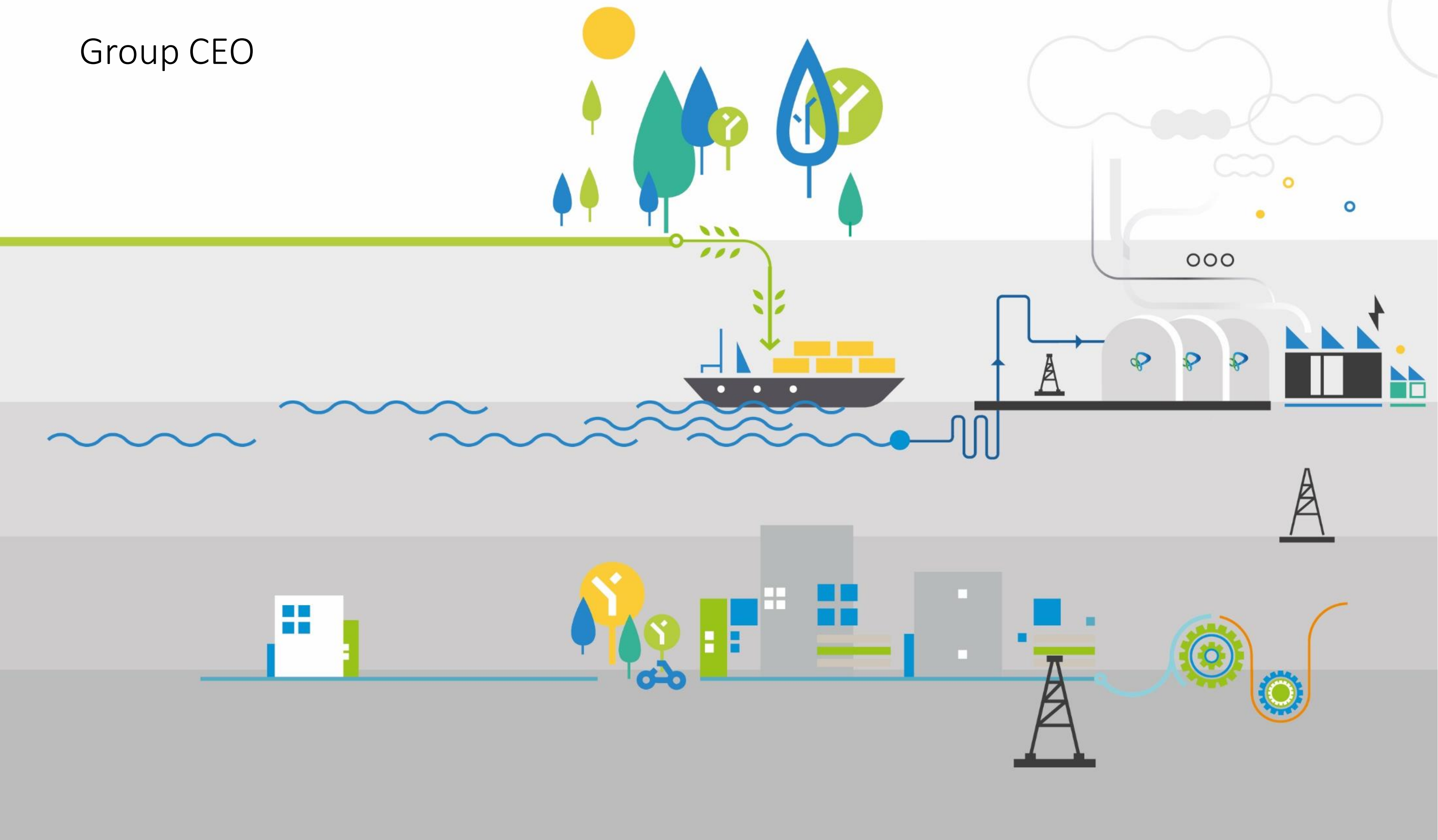
EBITDA bridge 2017 to 2019 (£m)



Summary

Will Gardiner

Group CEO



Summary

Flexible, low-carbon and renewable generation and system support

A unique and complementary portfolio

Pumped storage, hydro and gas-fired generation

Aligned with UK energy needs

Aligned with Drax generation strategy

Compelling strategic benefits

A strong financial case

Class 1 transaction

Subject to shareholder and also CMA approval

Drax Group

Acquisition of flexible, low-carbon and renewable UK power generation from Iberdrola