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
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)

- 2017 actual: 36
- Contracted capacity payments: 42
- Grid access: 8
- Lower corporate cost: 9
- Other: 90-110
- 2019
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