10 February 2025

This announcement contains inside information

Drax Group plc

("Drax"; "The Group"; Symbol: DRX)

Low-carbon dispatchable CfD agreement

Highlights

- Heads of terms agreed with UK Gov. for operation of Drax Power Station (DPS) post 2027
  - CfD scheme with a strike price of £113/MWh (2012) applied to all four biomass units
  - c.6TWh pa generation collar with flexible operation to support high and low demand periods
  - Contract period Apr-27 to Mar-31
  - Baringa estimate £1.6-3.1 billion of saving to consumers(1)
- Targeting average Adj. EBITDA of £100-200 million pa from DPS over agreement period
- Continuing to target >£500 million Adj. EBITDA pa post 2027 from FlexGen and Pellet Prod.

Drax Group CEO, Will Gardiner said: "The Government's low-carbon dispatchable CfD framework for biomass, announced today, is an investment in UK energy security, which will result in a net saving for consumers and support the delivery of Clean Power 2030.

"Analysis from Baringa indicates the proposed agreement will result in a £1.6-3.1 billion reduction in electricity system costs, versus the construction of new fossil fuel power stations, and Government has concluded today that Drax offers the lowest cost option for bill payers during this period.

"Drax Power Station is the UK's largest power station and provides secure capacity equivalent to over 80% of Hinkley Point C. The power station plays a critical role in UK energy security, providing c.10% of all UK renewable energy and over 50% at certain times of peak demand, with enough reliable power for 5 million homes - equivalent to every home in London, or Wales and Scotland combined.

"Under this proposed agreement, Drax can step in to increase generation when there is not enough electricity, helping to avoid the need to burn more gas or import power from Europe, and when there is too much electricity on the UK grid, Drax can turn down and help to balance the system.

"The size, flexibility and location of the power station makes it important for UK energy security and the proposed agreement helps protect the jobs and skills of today and the future, creating options for billions of pounds of investment in growth across Britain, including the development of large-scale carbon removals and data centres."

Details of the low-carbon dispatchable CfD

Following the launch in early 2024 of a consultation on a mechanism for large-scale biomass generators transitioning from their existing renewable schemes in 2027 to Bioenergy Carbon Capture and Storage (BECCS), Drax has continued to engage with the UK Government regarding opportunities for DPS.

Today the UK Government has published a statement(2) which sets out the key elements of a non-binding heads of terms for a low-carbon dispatchable CfD agreement for DPS. The statement proposes a CfD mechanism with a strike price of £113/MWh (2012) indexed to UK CPI. The CfD is available to all four biomass units at DPS, with an aggregate collar of c.6TWh pa (and a minimum of c.5TWh pa) and a four-year term from Apr-27 to Mar-31.

Under the proposed agreement DPS will sell c.6TWh of power annually against a season ahead reference price (as per the current CfD scheme) and then seek to maximise generation from its four units at times of high demand and reduce generation at times of low demand, using the station's flexibility to support UK energy security.

The proposed agreement also allows for system support and ancillary services.

Taking these factors together, Drax is targeting average Adj. EBITDA from DPS of £100-200 million pa during the agreement period, which is inclusive of a gain share mechanism(3). This target excludes incremental merchant generation above the generation collar, which could provide a further benefit.

The threshold for the gain share mechanism is based on revenues less allowable operating costs and capital investments for DPS over the four-year agreement period.

Subject to the required Parliamentary procedures - including the passage of the requisite Statutory Instrument and the completion of the Subsidy Control process - and agreement of a final contract, Drax will keep all four units operational beyond March 2027, supporting UK energy security, while continuing to develop options for long-term investment, including BECCS and data centres.

The proposed agreement also anticipates a tightening of biomass sustainability requirements. Drax supports these developments and will continue to engage with the UK Government on the implementation of any future reporting requirements.

requirements.

Continuing to target >£500 million EBITDA post 2027 from FlexGen and Pellet Production

Separate to biomass generation, Drax is continuing to target over £500 million of post 2027 Adj. EBITDA from FlexGen and Pellet Production.

In Pellet Production, Drax is continuing to develop a pipeline of wider sales opportunities in North America, Asia and Europe. In December 2024, Drax announced a heads of terms agreement for the sale of over 1Mt pa of biomass pellets to Pathway Energy (Pathway) for a new sustainable aviation fuel (SAF) project in Texas, which is targeting commercial operations in 2029. Pathway is also developing other projects which could require an additional 2Mt pa, which taken together with the first 1Mt pa could represent over 60% of Drax's pellet production in the 2030s. No investment decision has been taken by Pathway.

Drax believes that the development of new markets for biomass, particularly in North America, is supportive of biomass pricing. The Pathway agreement, alongside own-use biomass is expected to be priced consistent with Drax's ambition for post 2027 Adj. EBITDA pa from Pellet Production.

Capital allocation

The Group's capital allocation policy is unchanged and Drax remains focused on opportunities for value creation.

Other matter

Drax will issue its 2024 full year results on 27 February 2025.

Notes:

(1) https://www.drax.com/Baringa_Report_February_2025
(2) Written statements - Written questions, answers and statements - UK Parliament
(3) The threshold for the gain share mechanism is based on revenues less allowable operating costs and capital investments for Drax Power Station over the four-year agreement period.
If revenues less allowable operating costs and capital investments for Drax Power Station are on average over £160 million pa over the four-year period, Drax will pay 30% of the returns between £160 million pa and £210 million pa.
If revenues less allowable operating costs and capital investments for Drax Power Station are on average over £210 million pa over the four-year period, Drax will pay 60% of the returns above £210 million pa.

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This announcement contains inside information for the purposes of Article 7 of the Market Abuse Regulation (EU) No 596/2014 which is part of UK law by virtue of the European Union (Withdrawal) Act 2018, as amended ("MAR"). The person responsible for the release of this information was Brett Gladden (Group Company Secretary).

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"), are not warranted or guaranteed. By their nature, forward-looking statements involve risk and uncertainty because they relate to events 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 Drax'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: delays in the process for finalising the proposed agreement with the UK Government, future revenues being lower than expected; increasing competitive pressures in the industry; uncertainty as to future investment and support achieved in enabling the realisation of strategic aims and objectives; and/or general economic conditions or conditions affecting the relevant industry, both domestically and internationally, being less favourable than expected, including the impact of prevailing economic and political uncertainty, the impact of conflict including those in the Middle East and Ukraine, the impact of cyber attacks on IT and systems infrastructure (whether operated directly by Drax or through third parties), the impact of strikes, the impact of adverse weather conditions or events such as wildfires, changes to the regulatory and compliance environment within which the Group operates. 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.

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