Presenters

DOROTHY THOMPSON, CBE
Chief Executive Officer
Drax Group

WILL GARDINER
Chief Financial Officer
Drax Group

ANDREW KOSS
Chief Executive Officer
Drax Power

JONATHAN KINI
Chief Executive Officer
Retail

PETE MADDEN
President and CEO
Drax Biomass
# Agenda

<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
<th>Speaker</th>
</tr>
</thead>
<tbody>
<tr>
<td>9.30 – 9.45</td>
<td><strong>Introduction and Strategy</strong></td>
<td>Dorothy Thompson</td>
</tr>
<tr>
<td>9.45 – 10.15</td>
<td><strong>Retail – Haven Power and Opus Energy</strong></td>
<td>Jonathan Kini</td>
</tr>
<tr>
<td>10.15 – 10.45</td>
<td><strong>Generation – Drax Power</strong></td>
<td>Andy Koss</td>
</tr>
<tr>
<td>10.45 – 11.15</td>
<td><strong>Q&amp;A</strong></td>
<td></td>
</tr>
<tr>
<td>11.15 – 11.45</td>
<td><strong>Biomass Supply – Drax Biomass</strong></td>
<td>Pete Madden</td>
</tr>
<tr>
<td>11.45 – 12.15</td>
<td><strong>Financial Model</strong></td>
<td>Will Gardiner</td>
</tr>
<tr>
<td></td>
<td><strong>Q&amp;A</strong></td>
<td></td>
</tr>
</tbody>
</table>
Strategy
Dorothy Thompson
CEO, Drax Group
Helping Change the Way Energy is Generated, Supplied and Used for a Better Future

Our purpose

To help change the way energy is generated, supplied and used for a better future

How

By providing inspiring, flexible energy solutions that make a difference to customers

Result

Predictable and growing earnings
Targeted investment in long-term growth
Prudent capital structure and financial policies
Drax 2025
High quality growing earnings across all areas of operation

**Generation**
Key part of UK infrastructure
EBITDA >£300m\(^{(1)}\)

**Biomass supply**
At least 30% self-supply
EBITDA >£75m\(^{(1)}\)

**Retail**
Leading UK energy supplier
EBITDA >£80m\(^{(1)}\)

Underpinned by safety, sustainability, operational excellence and expertise in our markets

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\(^{(1)}\) Excludes Central Costs
Investment Case

Clear strategy offering a strong growth opportunity

Key components of the Group in place, with continued earnings streams beyond 2027

Capital allocation supports growth strategy and dividend policy

Management team focused on driving operational excellence and innovation
Retail
Jonathan Kini
CEO, Haven Power & Opus Energy
Retail Strategy

A leading challenger

Continued strong growth in SME\(^{(1)}\)

Profitable I&C\(^{(2)}\)

A growing retail annuity

Innovation

Commercial agility

Lowering cost to serve

Customer proposition

Market differentiation

Focus on customers

Make renewables and sustainability simple

Inspire change in energy use

Underpinned by safety, sustainability, operational excellence and expertise in our markets

\(^{(1)}\) Small and Medium-sized Enterprise
\(^{(2)}\) Industrial & Commercial
Retail Business
1,400 people across five UK sites

- Cardiff
  Opus Energy

- Oxford
  Opus Energy

- Ipswich
  Haven Power

- Northampton
  Opus Energy

- London
  Haven / Opus
Business to Business (B2B) Market
A major market with over five million businesses

UK retail electricity consumption
c.300 TWh

~2.5m B2B meters\(^{(1)}\)
Big 6 market share
2016 – 70%
2012 – 78%

UK retail gas consumption
c.600 TWh

~0.9m B2B meters\(^{(2)}\)
Big 6 market share
2016 – 17%
2012 – 21%

**Our Customers**

Over 340,000 meters in electricity & gas

- **I&C**
  - Small number of large users

- **SME**
  - Large number of customers, wide range of business profiles

Opportunities for power, gas, renewable and value adding services across our markets

- **Opus** – target growth in SME market sector
- **Haven** – target growth in larger customers in mid market sector
- **Haven** – profitability in I&C

(1) At March 2017
Opus Energy
Track record of SME market share growth and profitability

![Annual meter count over period 2014 - 2016](chart1)

![Annual gross margin over period 2014 - 2016](chart2)
Opus Energy
Delivering the strategy

A leading challenger

Increase SME market share

Strong TPI\(^{(1)}\) relationships

Increase product holding of base

Retention

Innovation

Customer service – easy to do business with

Tie up with Renewables

Cost to serve – online

Market differentiation

Certainty

Understand business needs; expertise in SME market

Speed of execution

(1) Third Party Intermediary
Opus Energy
Differentiating in the market

Strength of service to Customers and TPIs

Expanding product offering to new segments

Comprehensive online service

Understand the value of certainty to the SME market
Haven Power
Growth and increasing profitability in I&C / SME markets

Annual supply volume over period 2014 - 2016

Annual gross margin over period 2014 - 2016
Haven Power
Delivering the strategy

A leading challenger
- Sales volume
- I&C profitability
- SME growth

Innovation
- Renewable tariff products
- New platform

Market differentiation
- Better use of energy
- Partnerships
Haven Power
Differentiating in the market

- Flexible contracts
- Demand side response
- Energy efficiency and consulting services
- Budget tracking
Opus Energy – On-boarding
Areas of focus in 2017

1. People

2. Insource power and gas procurement

3. Deliver targets
Areas of Focus
Future

1. Gas and renewables
2. Combining expertise
3. Customer propositions
A Growing Retail Annuity
Margin predictability through customer retention

Retail
Leading UK energy supplier
EBITDA >£80m in 2025

Underpinned by
Industry leading customer retention levels
High cash conversion rates
Continued growth in SME and value adding services
Priorities for 2017
Supporting the strategy

- Opus on-boarding
- Haven financial targets
- Supporting innovation through smart programmes
- Renewables and gas
Summary

A leading challenger

Continued strong growth in SME

Profitable I&C

A growing retail annuity

Innovation

Commercial agility

Lowering cost to serve

Customer proposition

Market differentiation

Focus on customers

Make renewables and sustainability simple

Inspire change in energy use
Generation
Andy Koss
CEO, Drax Power
Generation Strategy

- **Optimise returns** from Drax Power Station
- **Expand business** to support low carbon future and manage system stability
- **Explore all options** to exploit strengths beyond 2027

Underpinned by safety, sustainability, operational excellence and expertise in our markets
Safety and Sustainability

Safety

Strong safety performance
- Lowest injury rates on record

Total Recordable Injury Rate
0.10 YTD
(2016: 0.13)

Sustainability

Proven carbon abatement
- Well established sustainability policy
Major reduction in NOx emissions
- Biomass generation and NOx abatement strategy
- IED\(^{(1)}\) compliant

Drax average GHG emissions

(1) Industrial Emissions Directive
Generation Business

Asset locations

(1) Dedicated facilities at four major UK ports – Hull, Immingham, Tyne and Liverpool

Drax Power Station
4GW

Rapid response gas developments
1.2GW

Other infrastructure
12Mt biomass handling capacity\(^{(1)}\)
225 biomass rail wagons

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**Notes:**
- Drax Group plc – Capital Markets Day
- Asset locations
- Drax Power Station (4GW)
- Rapid response gas developments (1.2GW)
- Other infrastructure (12Mt biomass handling capacity, 225 biomass rail wagons)

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\(^{(1)}\) Dedicated facilities at four major UK ports – Hull, Immingham, Tyne and Liverpool
Optimise Returns
Biomass – low cost, large scale renewable generation

CfD unit operations
Stable and predictable revenues to 2027 – indexed to CPI

ROC unit operations
ROC revenues to 2027 – indexed to RPI

Secure biomass supply and cost visibility
Core fuel requirement secured
5-10 year fixed price-formula contracts in place
Rolling five year hedging strategy
Optimise Returns
Biomass – optimising operational performance

**Availability**
World class performance – 95% availability in Q1 2017

**Investment**
Prioritisation of biomass unit performance
Year-round high availability target
Focus on CfD unit outage in Q3 2017

**Innovation**
Lean management
Analytics to drive continuous improvement
Optimise Returns
Coal – flexible capacity focused on system support market

**Greater demand for system support services**

Flexible operations

- Dynamic mix of revenues depending on electricity price and system operator requirements
- Units positioned to be attractive to National Grid

Focus on capturing high value prompt prices at times of system scarcity

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**Half hourly market index prices**
**January - May 2017**

<table>
<thead>
<tr>
<th>£/MWh</th>
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<tr>
<td>160</td>
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<td>140</td>
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<td>120</td>
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<td>100</td>
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<td>40</td>
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<td>20</td>
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Average price
**Optimise Returns**

Coal – optimising operational performance

**Availability**
- Limited summer operation, higher level winter operation
- Secure capacity market revenues

**Investment**
- Targeted investment, maintaining optionality
- Flexibility and reliability rewarded over efficiency

**Fuel diet**
- Broader diet targeted to enhance value

**Innovation**
- Ash reclaim project from landfill

[Coal availability chart: January - May 2017]
**Optimise Returns**

Meeting the system operability challenge

| Growth of system support | - Increase in intermittent and embedded generation  
|                          | - Closure of large thermal plant  
<table>
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<th></th>
<th>- Renewal of inflexible nuclear</th>
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<tbody>
<tr>
<td>Key services</td>
<td>- Frequency, reserve and voltage</td>
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<tr>
<td>Markets</td>
<td>- Prompt, balancing and ancillary service markets</td>
</tr>
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</table>
| Opportunities            | - Ability to provide headroom (turn up) on coal units and footroom (turn down) on biomass units  
|                          | - All forms of frequency response available, including Enhanced Frequency Response  
|                          | - Black Start capability  
|                          | - All Drax units provide inertia to support system stability  
|                          | - Voltage management |
Optimise Returns
Opportunities from changing system demand requirements

**UK generation – varying intermittent generation 2017 (GW)**

- **Peak winter demand**: 55
- **Minimum winter demand**: 25
- **Minimum summer demand**: 18

**Minimum wind**: 32
**Average wind**: 58
**Max wind**: 66

- **Nuclear**: Green
- **CHP**: Yellow
- **Interconnectors**: Dark Blue
- **Wind**: Light Blue
- **Biomass**: Light Green
- **Gas**: Dark Grey
- **Coal**: Light Grey
Expansion Opportunity
Rapid response Open Cycle Gas Turbines (OCGT)

Why rapid response?
Response to system operability challenge
– Highly flexible
– Rapid delivery of full load from stand-still

Strong strategic fit
– Long-term revenue predictability from capacity market
– Builds on generation and trading core competencies

Proven technology

Aligned with government energy policy
– Important enabler for the move to a low carbon economy
Rapid Response Gas
Project update

Four sites with total capacity of c.1,200MW
Four x 299MW units

Two sites with all principal permits
Progress Power and Hirwaun Power
– Bidding in 2017 auction for 15 year capacity contract
– Target operations three years post contract award

Two sites in permit process
Millbrook Power and Abergelli Power
– Targeting 2019 T-4 capacity market auction
Rapid Response Gas
Investment case

Option to develop 1.2GW of new OCGT gas

- Investment decisions subject to 15 year capacity contract
- Multiple revenue streams, with high visibility from capacity contract
- Low capital and operating cost
- Attractive return on capital
- Diversification of generation asset base and location
**Options Beyond 2027**

**Biomass – continuing profitable generation**

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**Continued need for system support services**

Biomass units can provide reliable, flexible low carbon generation

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**Pellet cost reduction**

Specific team focused on pellet cost reduction

- Comprehensive review of all aspects of pellet cost
  - Fibre, freight, logistics and unit efficiency
- Research and Innovation
  - Fuel envelope and technologies

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**Development of options for future unit conversions**

Trialling low cost solutions for further unit conversion

- U4 trial extended through summer
- Testing options for use of existing co-firing infrastructure
Options Beyond Coal
Creating options, supporting operational flexibility

New opportunities for a coal-free future
Conversion of remaining units to biomass
– Baseload or system support units with optimised biomass supply chain

Potential to repurpose assets to gas
– Exploit infrastructure and grid access
Good Underlying Growth
Increasing earnings visibility and important role in system support

Generation
Key part of UK infrastructure
EBITDA >£300m in 2025

High quality, visible earnings

- CfD
- Capacity payments
- Rapid response gas
- ROC, DGS, system support

Time

Drax Group plc – Capital Markets Day
Summary

Optimise returns from current business
- CfD – strong visible base
- RO – significant additional earnings
- Coal – upside from flexible operations
- System support
- Capacity payments

Low carbon future
- Further biomass generation
- Rapid response gas projects

Development options
- Optimisation of biomass supply chain and logistics
- Opportunities for a coal-free future
Questions
Biomass Supply
Pete Madden
President and CEO, Drax Biomass
Pellet Supply Strategy
Advancing innovation and improvement within the pellet industry

Operational excellence
- Safe, reliable and flexible operations
- Low cost, good quality pellets

Innovation
- Continuous improvement, efficiencies and cost reduction
- Leverage benefits of multiple assets and location for operational efficiencies

Increase to at least 30% self-supply
- Identify opportunities to add capacity to portfolio
- Stable and growing earnings profile
- Attractive long-term market

Underpinned by safety, sustainability, operational excellence and expertise in our markets
Safe and Sustainable
Committed to high safety and sustainability standards

**Safety**
Improving performance

**Strong sustainability credentials**
SFI® Certified Sourcing
SFI®, PEFC, FSC® Chain of Custody
Sustainable Biomass Programme certification

**Further commitment to sustainability**
Independent audit by third party
Working with forest owners
  - Tree farmers programme
  - Promote sustainable forest management

*Total Recordable Injury Rate*

**0.47YTD**
(2016: 1.11)

*Drax Biomass average GHG emissions*

- **Drax Biomass**: 48g CO₂/MJ
- **UK Limit 2015-2020**: 79g CO₂/MJ
US Forestry
Leveraging abundant resource of fibre and infrastructure in US Southeast

**US has >750 million acres of forest land**

<table>
<thead>
<tr>
<th>&gt;35% of the landmass and 25% of global industrial wood production</th>
<th>Pellet industry less than 3% of annual harvest</th>
<th>Forest growing annually since 1950s</th>
<th>Protected by statutes, regulation and certification</th>
<th>Best practices in forest management and sustainability</th>
</tr>
</thead>
</table>

**US Southeast – key fibre basket**

Vast resources of sustainable forestry

Inventories increased >90% since 1950

Well established commercial forestry industry and infrastructure

Structural decline in incumbent users of low value fibre
  - Opportunity for pellet producers

**Stable commercial and regulatory environment**
Operations Located in US Southeast
1.5 million tonnes of capacity

- **LaSalle BioEnergy**
  - Bastrop, LA, 525kt pa
- **Amite BioEnergy**
  - Gloster, MS, 525kt pa
- **Morehouse BioEnergy**
  - Bastrop, LA, 525kt pa
- **Baton Rouge Transit**
  - Port Allen, LA

**LaSalle BioEnergy**
LaSalle, LA, 450kt pa (from 2018)
Pellet Plant Economics
Components of process cost, opportunities for savings

Focus on operational improvements and cost reduction

- Innovation
- Incremental capacity
- Operational and locational synergies
- Increased utilisation of lower cost fibres
Innovation
Case study: pellet dies

Pellet dies
Used to press fibre at high temperature into pellets
Significant wear and tear
12 dies per plant
c.$10k per die
300-400 hours of operation
Outage required for replacement

New pellet dies reduce costs
Increased availability
800-1,000 hours of operation
Lighter, easier installation
Operational efficiency

Technology applicable across all existing assets
Innovation and Continuous Improvement
Opportunities identified to increase capacity and reduce pellet costs

**Investments at Amite and Morehouse**

Additional truck dumps
- Increase capacity for lower cost residuals

Install dry shavings system
- Increase capacity c.75k tonnes per plant

Total capex c.£10 million
- Payback within two years

**Benefits**

Increase utilisation of lower cost fibre
- Original – 80% pulpwood, 20% residuals
- Future – 60% pulpwood, 40% residuals/shavings

Reduce processing cost
LaSalle BioEnergy
Attractively priced, good quality asset

**Attractively priced**
1/3 of new build cost
- Price reflects lack of long-term offtake agreement

Shorter lead time to operation vs. new build
- Commission Q1 2018 following upgrades, build output through 2018

Significant contribution to portfolio
- 450kt capacity

**Good quality asset**
Proven technology
- c.130k pellets produced in 2016

c.£20 million investment for additional upgrades
- Railroad infrastructure and additional log/chip storage
- Single line electrical system and IT infrastructure
- Safety, environmental policy and training
- Spare parts and equipment gap analysis
LaSalle BioEnergy
Strong fibre basket – low fibre demand, high supply

Region with 70% forest coverage
70 million metric tonnes of standing pine timber in 50 mile radius

Strong market for low value fibre
> Two million metric tonnes decline in pulpwood fibre demand
  - Closure of two pulp & paper facilities
LaSalle requirement
  - One million mt of fibre
  - 450kt of pellets

Sustain local forest-based economy
Supports long-term investment in forest
  - Healthier forests, stronger yield

(1) USDA Forest Service

LaSalle fibre basket growth and extraction 2014

Growth
Removals
Net growth
LaSalle Bioenergy
Leverage benefits of multiple assets and locations for operational efficiencies

All sites within 200 mile radius

Operational efficiencies
Common plant and joint strategic spares
- Maximise reliability, minimise capital outlay
Flexibility through outage cycle
Human capital

Shared logistics to Baton Rouge
Rail and road
Increased port throughput

Complementary fibre sourcing
Optimisation of supply between plants

Further benefits associated with increased capacity
Target at least 30% self-supply
Target at Least 30% Self-supply
Identify opportunities to add capacity to portfolio

>30%

Options for further capacity

Increase, optimise and improve
Good Underlying Growth
Increasingly profitable and growing biomass supply business

Biomass
Target at least 30% self-supply
EBITDA >£75m in 2025

High quality, visible earnings

Morehouse & Amite  LaSalle  Expansion of existing capacity  Additional capacity

Time
Global Pellet Market Outlook

Development of stable global growth of industrial and heating markets

Global industrial and heating market demand in 2026 >55mt
7% CAGR

European Demand (mt)

North American Demand (mt)

Asian Demand (mt)

Focus on biomass self-supply capability

Explore opportunities in global pellet supply

(1) Hawkins Wright – The Outlook for Wood Pellets (2017)
Summary

Excellence in operations
Safe, reliable, flexible operations

Innovation
Opportunities for operational and fibre cost savings

Strong locational benefits
Maximising fibre basket resources

Good progress towards self-supply strategy
Incremental capacity improvements
LaSalle engineering programme in place, commissioning and ramping through 2018

Strong long-term outlook for global pellet market
Self-supply or third party opportunities
Financial Model
Will Gardiner
CFO, Drax Group
Financial Model

Highlights

**High degree of earnings visibility, reducing commodity exposure**
- Renewable support – CfD and RO contracts to 2027 with long-term fuel and FX hedging programme
- Capacity payments
- Retail annuity
- Predictable pellet supply earnings

**Good underlying growth in core business**
- Profitable and growing retail businesses
- Important role in system support services
- Increasingly profitable and growing biomass supply business

**Opportunities for further long-term growth**
- Retail platform for growth
- Acquisition of pellet plants
- Development of rapid response gas, subject to capacity market
- Long-term options for generation

**Strong financial position**
- Strong balance sheet with low leverage
- Strong cash conversion – stable maintenance capex and working capital efficiency opportunities

**Clear capital allocation plan**
- Maintain credit rating
- Investment in core business
- Sustainable and growing dividend
- Return surplus capital to shareholders

Underpinned by safety, sustainability, operational excellence and expertise in our markets
High Degree of Earnings Visibility
Reducing commodity exposure

Renewable support mechanisms

One biomass unit supported by CfD
- Guaranteed strike price for electricity
- £107/MWh in 2017\(^{(1)}\)
- Extends to 2027 – indexed to CPI

Two biomass units supported by ROCs
- Increasing premium on power price
- Units earn c.£45/MWh\(^{(2)}\) plus power price
- Extends to 2027 – indexed to RPI

Increase in non-power market revenues
Capacity payments, 2017-2021
- c.£80m contracted

System support

A growing retail annuity

Stable margins from growing long-term biomass supply

(1) Strike price in 2012 £100/MWh – indexed to CPI
(2) CP-16 price – full buy out, excluding recycle fee
High Degree of Earnings Visibility
Risk management supports earnings visibility

Biomass generation revenues actively hedged
CfD unit hedged via CfD reference price
Forward power sales concentrated on ROC units
  – Largely sold over 2017/18
Coal units – focused on short-term markets
  – Upside from power market tightness

Biomass cost actively hedged
5-10 year fixed price-formula contracts in place
Benefit of self-supply capability
Rolling five year hedging strategy
Good Underlying Growth
Profitable and growing retail business

Retail
Leading UK energy supplier
EBITDA >£80m in 2025

High quality, visible earnings

2017 EBITDA | Full 12 months of Opus | Insourcing power and gas | Growth

Time
Good Underlying Growth
Increasing earnings visibility and important role in system support

Generation
Key part of UK infrastructure
EBITDA >£300m in 2025

High quality, visible earnings

CfD  Capacity payments  Rapid response gas  ROC, DGS, system support

Time
Good Underlying Growth
Increasingly profitable and growing biomass supply business

**Biomass**
Target at least 30% self-supply
EBITDA >£75m in 2025

Morehouse & Amite  LaSalle  Expansion of existing capacity  Additional capacity

Time

High quality, visible earnings

Drax Group plc – Capital Markets Day
Opportunities for Further Long-term Growth
Value accretive long-term investment opportunities

Retail
Strengthen annuity by expanding product offering
Platforms offer market expansion opportunities

Generation
Further biomass generation
Continuing trials of low cost conversion solutions
Supply chain optimisation and lower cost biomass
Potential to repurpose coal

Pellet Supply
Attractive growing market

Opportunities to create value across the supply chain
Strong Financial Position

Cash flow

**Operating cash flow**
Visible and growing operating cash flow

**Capital investment**
Average maintenance capex c.£50m
Further investment in value accretive projects
- Rapid response gas – £320-£400m
- Additional pellet plant acquisitions

**Working capital**
Remain focused on working capital management
Strong Financial Position
Prudent financial policies

**Refinancing complete**
Modest levels of debt
- Robust to low points in business cycle
- 2017 target c.2x net debt/EBITDA
Lower cost of financing
Commitment credit rating
- Supportive of trading strategy
- Investment grade rating on super-senior RCF

**Strong cash flow generation from stable and predictable earnings base**
Opportunities for further cash flow benefits

£550m high yield bonds
£350m revolving credit facility
Capital Allocation
Policy designed to support strategy

- Maintain credit rating
- Investment in core business
- Pay a sustainable and growing dividend
- Return surplus capital to shareholders
Dividend Policy

Drax expects to pay a growing dividend consistent with maintaining its credit rating and investing in its business.

Drax expects to recommend a dividend of £50m with regards to the 2017 financial year. The Board is confident that this dividend is sustainable and expects it to grow from this level as the implementation of the strategy generates an increasing proportion of stable earnings and cash flow. In determining the rate of growth in dividends the Board will take account of future investment opportunities and the less predictable cash flows from the Group’s commodity-based businesses.

If there is a build-up of capital in excess of the Group’s investment needs the Board will consider the most appropriate mechanism to return this to shareholders.
Summary

Strategy being delivered
Improving quality and stability of earnings, reducing commodity exposure
- Renewable and contract based revenues
- Retail and pellet supply becoming businesses of scale
Attractive opportunities from core assets
Value accretive investment opportunities support long-term earnings visibility

Financial model in place to support strategy
Refinancing complete
Dividend policy confirmed

2017 – in line with expectation
Questions
# Drax Model Summary
Supporting earnings visibility and growth

**Strategic Objective**
Higher quality diversified and visible earnings, management of commodity exposure
Targeted long-term growth opportunities

<table>
<thead>
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<th>Markets</th>
<th>Current</th>
<th>Drax 2025</th>
<th>Other Opportunities</th>
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<tbody>
<tr>
<td>Retail</td>
<td>Opus and Haven</td>
<td>Opus and Haven</td>
<td>&gt;£80m* Products, services, markets</td>
</tr>
<tr>
<td>Generation</td>
<td>1 baseload CfD unit Capacity payments</td>
<td>1 baseload CfD unit Capacity payments Rapid response gas</td>
<td>&gt;£300m* Further biomass generation</td>
</tr>
<tr>
<td>Generation</td>
<td>2 x ROC units System support services</td>
<td>2 x ROC units System support services</td>
<td>&gt;£300m* Supply chain optimisation</td>
</tr>
<tr>
<td>Generation</td>
<td>3 x coal units</td>
<td>3 x coal unit opportunity</td>
<td>Repurposed coal</td>
</tr>
<tr>
<td>Biomass supply</td>
<td>c.15% self-supply</td>
<td>&gt;30% self-supply target</td>
<td>&gt;£75m* R&amp;I / new technologies</td>
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## Strategy underpinned by strong financial structure and capital allocation plan

### Capital allocation
- Maintain credit rating
- Investment in core business
- Sustainable and growing dividend
- Investment in value or distribution to shareholders

### Strong balance sheet
- £550m bonds (fixed and floating)
- £350m RCF

### Balance sheet objectives
- 2017 target c.2x net debt/EBITDA
- Maintain credit rating

### Capital investment
- Core - £50m pa
- Gas - £320-£400m
- Additional pellet plant acquisitions – new build benchmark c.$120m for 500kt

### Dividend policy
- £50m in 2017, expected to grow over time
- Affordable and sustainable
- Consider most appropriate mechanism to return surplus capital to shareholders

* Excludes Central Costs
Summary
Dorothy Thompson
CEO, Drax Group
Drax 2025
High quality growing earnings across all areas of operation

**Generation**
Key part of UK infrastructure
EBITDA >£300m\(^{(1)}\)

**Biomass supply**
At least 30% self-supply
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Underpinned by safety, sustainability, operational excellence and expertise in our markets

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