

Company Registration No. 3618559

DRAX OUSE LIMITED

Report and Financial Statements

31 December 2004



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DRAX OUSE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

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DRAX OUSE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The board of directors

Gordon Horsfield - Chairman
Mike Grasby - Non-executive director
Timothy Barker - Non-executive director
Peter Emery - Production director
Gordon Boyd - Finance director

Company secretary

Peter Rothwell

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PQ

Auditors

Deloitte & Touche LLP
Chartered Accountants
& Registered Auditors
Leeds

Legal advisor

Norton Rose
Kempson House
Camomile Street
London
EC3A 7AN

DRAX OUSE LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2004

The directors have pleasure in presenting their report and the financial statements of the company for the year ended 31 December 2004.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

On 22 December 2003, the company transferred its trade and certain of its assets and liabilities to Drax Power Limited. Since this date the company has remained a non-trading company.

The trading status of the company is not expected to change in the foreseeable future.

RESULTS AND DIVIDENDS

The trading results for the year and the company's financial position at the end of the year are shown in the attached financial statements.

The directors have not recommended a dividend (2003 : Nil).

DIRECTORS

The directors who served the company during the year were as follows:

Gordon Horsfield	
Gerald Wingrove	(Resigned 19 April 2005)
Mike Grasby	
Timothy Barker	(Appointed 30 June 2004)
Peter Emery	(Appointed 1 June 2004)
Lord Taylor of Blackburn	(Resigned 30 June 2004)

None of the directors had any disclosable interest, as defined by the Companies Act 1985, in the shares of the company. The directors' interests in other group companies are disclosed within the respective entity financial statements.

Gordon Boyd was appointed as a director on 10 January 2005.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company at the end of the year and of the profit or loss for the year then ended. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. The directors are also responsible for safeguarding the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

DRAX OUSE LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2004

AUDITORS

A resolution to re-appoint Deloitte & Touche LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with section 385 of the Companies Act 1985.

Signed by order of the directors

A handwritten signature in black ink, appearing to read 'Peter Rothwell', written in a cursive style.

Peter Rothwell
Company Secretary

Approved by the directors on 20 April 2005.

DRAX OUSE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF DRAX OUSE LIMITED

YEAR ENDED 31 DECEMBER 2004

We have audited the financial statements of Drax Ouse Limited for the year ended 31 December 2004 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 19. These financial statements have been prepared under the historical cost convention and on the basis of the accounting policies set out therein.

This report is made solely to the company's shareholders, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's shareholders those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's shareholders as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

As described in the Statement of Directors' Responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

OPINION

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2004 and of its profit for the year then ended, and have been properly prepared in accordance with the Companies Act 1985.



Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

20 April 2005

DRAX OUSE LIMITED**PROFIT AND LOSS ACCOUNT****YEAR ENDED 31 DECEMBER 2004**

		2004	2003 <i>(as restated see note 11)</i>
	Note	£000	£000
TURNOVER (DISCONTINUED OPERATIONS)	2	—	458,149
Cost of sales		—	(275,215)
GROSS PROFIT		—	182,934
Administrative expenses	6	—	(145,811)
OPERATING PROFIT (DISCONTINUED OPERATIONS)	3	—	37,123
Profit on sale of business	7	—	6,608
Interest receivable	8	179,385	10,075
Interest payable and similar charges	9	—	(1,597)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		179,385	52,209
Tax on profit on ordinary activities	10	(53,816)	(88,444)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES AFTER TAXATION, BEING RETAINED PROFIT FOR THE FINANCIAL YEAR	18	125,569	(36,235)

The notes on pages 8 to 14 form part of these financial statements.

DRAX OUSE LIMITED

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

YEAR ENDED 31 DECEMBER 2004

	2004	2003 <i>(as restated see note 11)</i>
	£000	£000
Profit/ (loss) for the financial year attributable to the shareholders	125,569	(36,235)
Total recognised gains and losses relating to the year	<u>125,569</u>	<u>(36,235)</u>
Prior year adjustment (see note 11)	(247,682)	
Total gains and losses recognised since the last annual report	<u>(122,113)</u>	

The notes on pages 8 to 14 form part of these financial statements.


DRAX OUSE LIMITED

BALANCE SHEET

31 DECEMBER 2004

			2004	2003 (as restated see note 11)
	Note	£000	£000	£000
CURRENT ASSETS				
Debtors due within one year	12	157,970		148,172
Debtors due after one year	12	1,288,915		1,170,000
		1,446,885		1,318,172
CREDITORS: Amounts falling due within one year	13	<u>(15,908)</u>		<u>(12,764)</u>
NET CURRENT ASSETS			1,430,977	1,305,408
TOTAL ASSETS LESS CURRENT LIABILITIES			1,430,977	1,305,408
CREDITORS: Amounts falling due after more than one year				
	14		<u>(78,208)</u>	<u>(78,208)</u>
			1,352,769	1,227,200
CAPITAL AND RESERVES				
Called-up equity share capital	17		1,000	1,000
Share premium account	18		1,204,542	1,204,542
Other reserves	18		104,500	104,500
Profit and loss account	18		<u>42,727</u>	<u>(82,842)</u>
EQUITY SHAREHOLDERS' FUNDS	18		<u>1,352,769</u>	<u>1,227,200</u>

These financial statements were approved by the directors on the 20 April 2005 and are signed on their behalf by:



Gordon Horsfield
Chairman



Gordon Boyd
Finance Director

The notes on pages 8 to 14 form part of these financial statements.

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared under the historical cost convention, and in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below and have been consistently applied in both the current and preceding year.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard No 1 (Revised 1996) from including a cash flow statement in the financial statements on the grounds that the company is wholly owned and its ultimate parent publishes a consolidated cash flow statement.

Turnover

There is no trading turnover to report in the year. Turnover in the preceding year relates to discontinued operations being revenue from the sale of electricity, recorded based upon output delivered and capacity provided at rates specified under contract terms or prevailing market rates.

Taxation

Current tax, including UK Corporation tax is provided at amounts expected to be paid or recovered.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- Provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- Deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse. Both current and deferred tax are based on tax rates and laws enacted or substantively enacted at the balance sheet date.

2. TURNOVER (DISCONTINUED OPERATIONS)

The turnover and profit before tax are attributable to the one principal activity of the company and relate wholly to the United Kingdom.

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

3. OPERATING PROFIT

Operating profit is stated after charging:

	2004	2003
	£000	£000
Depreciation of owned fixed assets	-	31,287
Auditors' remuneration		
- as auditors	-	142
- for other services	-	103
	<u>-</u>	<u>31,532</u>

Audit fees for the current year are borne by the fellow subsidiary undertaking Drax Power Limited.

4. PARTICULARS OF EMPLOYEES

The average number of staff employed by the company during the financial year amounted to:

	2004	2003
	No	No
Operations	-	444
Business services	-	59
	<u>-</u>	<u>503</u>

The aggregate payroll costs of the above were:

	2004	2003
	£000	£000
Wages and salaries	-	17,553
Social security costs	-	1,411
Other pension costs	-	1,350
	<u>-</u>	<u>20,314</u>

5. DIRECTORS' EMOLUMENTS

The directors' aggregate emoluments in respect of qualifying services were:

	2004	2003
	£000	£000
Emoluments receivable	-	1,524
Value of company pension contributions to money purchase schemes	-	5
	<u>-</u>	<u>1,529</u>

Emoluments of highest paid director:

	2004	2003
	£000	£000
Total emoluments (excluding pension contributions)	-	671

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

5. DIRECTORS' EMOLUMENTS *(continued)*

The number of directors who accrued benefits under company pension schemes was as follows:

	2004	2003
	No	No
Money purchase schemes	<u>—</u>	<u>1</u>

The directors did not receive any remuneration in the year for services to the company.

6. EXCEPTIONAL ITEMS

Administration expenses in the prior year included an exceptional credit as follows:

	2004	2003
	£000	£000
Write-back of AES intercompany balances	<u>—</u>	<u>7,829</u>

7. PROFIT ON SALE OF BUSINESS

	2004	2003
	£000	(as restated see note 11) £000
Profit on sale of business to fellow subsidiary	<u>—</u>	<u>6,608</u>

8. INTEREST RECEIVABLE

	2004	2003
	£000	(as restated see note 11) £000
Interest receivable on intercompany loan	179,385	4,290
Bank interest receivable and similar income	<u>—</u>	<u>5,785</u>
	<u>179,385</u>	<u>10,075</u>

9. INTEREST PAYABLE AND SIMILAR CHARGES

	2004	2003
	£000	£000
Interest payable on bank borrowing	<u>—</u>	<u>1,597</u>

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

10. TAXATION ON ORDINARY ACTIVITIES

(a) Analysis of charge in the year

	2004	2003 (as restated see note 11)
	£000	£000
Current tax:		
Corporation tax	-	-
Over provision in prior year	-	(9,395)
Group relief - current year	53,816	71,482
Group relief - prior year	-	21,349
Total current tax	53,816	83,436
Deferred tax:		
Origination and reversal of timing differences	-	5,008
Tax on profit on ordinary activities	53,816	88,444

There is no deferred tax in the current year.

(b) Factors affecting current tax charge

The tax assessed on the profit on ordinary activities for the year is the same as the standard rate of corporation tax in the UK of 30% (2003 - 30%).

	2004	2003 (as restated see note 11)
	£000	£000
Profit on ordinary activities before taxation	179,385	52,209
Profit on ordinary activities by rate of tax	53,816	15,663
Expenses not deductible for tax purposes	-	5,864
Capital allowances for period in excess of depreciation	-	(5,008)
Adjustments to tax charge in respect of previous periods	-	11,954
Movement in short term timing differences	-	(21,087)
Profit on disposal of transfer of business	-	76,050
Total current tax (note 10(a))	53,816	83,436

11. PRIOR YEAR ADJUSTMENT

A prior year adjustment has been made to correct the interpretation of the legal documentation effecting the sale of trade and certain assets and liabilities to a fellow subsidiary undertaking. The consideration value accounted for in the financial statements for the year ended 31 December 2003 was overstated by £246,892,000. This overstatement also resulted in the intercompany loan interest subsequently charged in the year being incorrectly stated. The financial statements have therefore been restated to show the correct position, along with associated tax restatements as follows:

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

11. PRIOR YEAR ADJUSTMENT *(continued)*

A summary of the affected balances is shown below:

	2003 as reported £'000	2003 as restated £'000	Difference £'000
Balance sheet:			
Amounts owed by group undertakings	1,416,777	1,170,000	246,777
Prepayments and accrued income	5,195	4,290	905
Total prior year adjustment			<u>247,682</u>
Profit and loss account:			
Profit on sale of business to fellow subsidiary	253,500	6,608	(246,892)
Interest receivable and similar income	10,865	10,075	(790)
Total prior year adjustment			<u>(247,682)</u>

The prior year adjustments do not impact upon the consolidated group position of Drax Holdings Limited.

12. DEBTORS

	2004 £000	2003 (as restated see note 11) £000
Amounts owed by group undertakings	1,446,885	1,313,882
Prepayments and accrued income	—	4,290
	<u>1,446,885</u>	<u>1,318,172</u>

The debtors above include the following amounts falling due after more than one year:

	2004 £000	2003 (as restated see note 11) £000
Amounts owed by group undertakings	<u>1,288,915</u>	<u>1,170,000</u>

The above restated intercompany loan bears interest at a rate of 14.87% per annum and is repayable in one instalment on 30 June 2025. The debt has been restated as a result of the prior year adjustment detailed in note 11. Interest is not charged on other amounts due from group undertakings.

13. CREDITORS: Amounts falling due within one year

	2004 £000	2003 £000
Amounts owed to group undertakings	15,908	11,206
Other creditors	—	1,558
	<u>15,908</u>	<u>12,764</u>

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

14. CREDITORS: Amounts falling due after more than one year

	2004	2003
	£000	£000
Amounts owed to group undertakings	<u>78,208</u>	<u>78,208</u>

The amount owed to group undertakings relates to amounts owed to the immediate parent company and has no fixed payment date, however the directors of the immediate parent company have indicated that payment will not be requested within one year. No interest is payable on this amount.

15. COMMITMENTS AND CONTINGENCIES

Guaranteed Secured Bonds, Further Eurobonds and the B Facility Eurobonds amounting to £2,150 million are guaranteed on an unlimited, unconditional and irrevocable basis by each of Drax Ouse Limited, Drax Power Limited, Drax Limited, Drax Electric Limited, Drax Intermediate Holdings Limited and Drax Group Limited and each such entity has granted security over all their assets as security for, inter alia, the *Guaranteed Secured Bonds, Further Eurobonds and B Facility Eurobonds and certain related swaps*, finance documents and guarantees. Repayment of the *Guaranteed Secured Bonds, Further Eurobonds and the B Facility Eurobonds* is further secured by direct agreements from certain of the major project parties and other security arrangements.

16. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by paragraph 3(c) of Financial Reporting Standard 8, not to disclose transactions with other group companies.

17. SHARE CAPITAL

Authorised share capital:

	2004	2003
	£000	£000
1,000,001 Ordinary shares of £1 each	<u>1,000</u>	<u>1,000</u>

Allotted, called up and fully paid:

	2004		2003	
	No	£000	No	£000
Ordinary shares of £1 each	<u>1,000,001</u>	<u>1,000</u>	<u>1,000,001</u>	<u>1,000</u>

DRAX OUSE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2004

18. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENT ON RESERVES

	Share capital £000	Share premium account £000	Capital reserve £000	Profit and loss account £000	Total share- holders' funds £000
Balance brought forward as previously stated	1,000	1,204,542	104,500	164,840	1,474,882
Prior year adjustment (note 11)	—	—	—	(247,682)	(247,682)
Restated balance brought forward	1,000	1,204,542	104,500	(82,842)	1,227,200
Retained profit for the year	—	—	—	125,569	125,569
Balance carried forward	<u>1,000</u>	<u>1,204,542</u>	<u>104,500</u>	<u>42,727</u>	<u>1,352,769</u>

19. ULTIMATE PARENT COMPANY

The immediate parent company is Drax Limited, a company incorporated in the Cayman Islands. Drax Holdings Limited, an intermediate holding company, incorporated in the Cayman Islands, is the smallest group for which publicly available consolidated financial statements are prepared.

Drax Group Limited, a company incorporated in the Cayman Islands, is the ultimate parent company, controlling entity and largest group for which publicly available consolidated financial statements are prepared.