

Company Registration No. 05562058

DRAX FINANCE LIMITED

Report and Financial Statements

31 December 2008



DRAX FINANCE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

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DRAX FINANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

The Board of Directors

Dorothy Thompson
Peter Emery
Tony Quinlan (Appointed 1 September 2008)
Gordon Boyd (Resigned 31 August 2008)

Company Secretary

Philip Hudson

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PH

Auditors

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

Solicitors

Norton Rose
3 More London Riverside
London
SE1 2AQ

DRAX FINANCE LIMITED

THE DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2008

The directors present the report and the financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is the raising and provision of debt finance for the benefit of the Drax group of companies (together "Drax Group"). This is expected to continue in the foreseeable future.

On 27 October 2005 the Company successfully raised debt financing facilities, including the provision of a term loan, on behalf of Drax Group, which were subsequently drawn down on 14 December 2005. On 11 May 2006, the Company entered into a new credit facility agreement providing a further term loan on similar terms and with a similar repayment profile to the existing term borrowings. This facility was drawn down on 3 July 2006.

On 3 August 2009, Drax Group plc ('the Group') completed the refinancing of its outstanding term loan facilities and working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012, at which point they will be repaid in full.

RESULTS AND DIVIDENDS

The Company's profit after tax for the year amounted to £146.8 million (2007: £153.0 million). Interim dividends were paid in January and June 2008, totalling 8.92p per ordinary share (2007: 9.85p) amounting to £110.0 million (2007: £121.5 million). The directors do not recommend payment of a final dividend in respect of 2008 (2007: £nil).

FINANCIAL RISK MANAGEMENT

The Company is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of sterling-denominated debt, as all of its debt is denominated in sterling and has a variable LIBOR rate. The Company has interest rate swaps in place which hedge against the interest rate exposure on a proportion of floating rate debt.

Information about the Company's instruments that are exposed to interest rate risk and their repayment schedules is included within the notes to the financial statements.

GOING CONCERN

On the basis of their assessment of the Company's financial position and the ongoing financial support of the Group, the directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

DIRECTORS

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

Dorothy Thompson
Peter Emery
Gordon Boyd
Tony Quinlan

(Resigned 31 August 2008)
(Appointed 1 September 2008)

DRAX FINANCE LIMITED

THE DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2008

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed; 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 hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

AUDITORS AND THE DISCLOSURE OF INFORMATION TO THE AUDITORS

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing the report, of which the auditors are unaware. Having made enquiries of fellow directors and the Company's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 234ZA of the Companies Act 1985.

A resolution to re-appoint Deloitte LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with Section 485-488 of the Companies Act 2006.

By order of the directors



PHILIP HUDSON
Company Secretary

23 October 2009

DRAX FINANCE LIMITED

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDER OF DRAX FINANCE LIMITED

We have audited the financial statements of Drax Finance Limited for the year ended 31 December 2008 which comprise the profit and loss account, balance sheet, and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's shareholder 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 shareholder 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 shareholder as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 whether in our opinion the information given in the directors' report is consistent with the financial statements.

In addition we report to you if, in our opinion, 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 other transactions 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 International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the directors' report is consistent with the financial statements.

Deloitte LLP

Deloitte LLP
Chartered Accountants and Registered Auditors
London, UK

27 October 2009

DRAX FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2008

	Note	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
OPERATING PROFIT	2	(45)	–
Income from shares in group undertakings		166,244	180,943
Impairment of fixed asset investment		–	(6,385)
Interest receivable	3	–	3,518
Interest payable and similar charges	4	(27,180)	(34,328)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		139,019	143,748
Tax on profit on ordinary activities	5	7,759	9,243
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION, BEING PROFIT FOR THE FINANCIAL PERIOD		146,778	152,991

All of the activities of the Company are classed as continuing.

The Company has no recognised gains or losses other than the results for the year as set out above and accordingly no statement of total recognised gains and losses has been prepared.

The notes on pages 7 to 13 form part of these financial statements.

DRAX FINANCE LIMITED

BALANCE SHEET

31 DECEMBER 2008

	Note	2008 £000	2007 £000
FIXED ASSETS			
Investments	7	1,367,275	1,367,275
CURRENT ASSETS			
Debtors	8	9,825	4,826
Cash at bank		39	96
		<u>9,864</u>	<u>4,922</u>
CREDITORS: Amounts falling due within one year	9	<u>(15,109)</u>	<u>(9,996)</u>
NET CURRENT LIABILITIES		<u>(5,245)</u>	<u>(5,074)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		1,362,030	1,362,201
CREDITORS: Amounts falling due after more than one year	10	<u>(350,038)</u>	<u>(386,987)</u>
NET ASSETS		<u>1,011,992</u>	<u>975,214</u>
CAPITAL AND RESERVES			
Called-up equity share capital	13	1,233	1,233
Profit and loss account	14	1,010,759	973,981
EQUITY SHAREHOLDER'S FUNDS	14	<u>1,011,992</u>	<u>975,214</u>

The financial statements of Drax Finance Limited, registered number 05562058 were approved by the board of directors on 23 October 2009.

Signed on behalf of the board of directors:



Tony Quinlan
Director

The notes on pages 7 to 13 form part of these financial statements.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the going concern basis, as described on page two, under the historical cost convention, and in accordance with Companies Act 1985 and applicable United Kingdom accounting standards.

The particular accounting policies adopted are described below and have been consistently applied during the year and during the previous year.

Exemption from preparing group accounts

The Company is a wholly-owned subsidiary of another company incorporated in the UK and in accordance with section 228 of the Companies Act 1985, is not required to produce consolidated accounts.

Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard ("FRS") 1 'Cash Flow Statements (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 which includes the cash flows of the Company.

Fixed assets investments

Fixed asset investments in subsidiaries are stated at cost less, where appropriate, provision for impairment.

Debt instruments

The Company measures all debt instruments, whether financial assets or financial liabilities, initially at fair value of the consideration paid or received. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are, in effect, amortised through the profit and loss account over the life of the instrument. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method.

Derivative instruments

The Company enters into derivative transactions in order to hedge its exposure to certain market risks. The Company has interest rate swaps in place to hedge against interest rate exposure on a proportion of its floating rate debt. Amounts receivable or payable under the swaps are shown within interest.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. OPERATING PROFIT

The Company has no employees other than the directors, whose remuneration was borne by a subsidiary undertaking. Auditors' remuneration for audit services to the Company (allocated as £1,000 in both periods) was borne by a subsidiary undertaking.

3. INTEREST RECEIVABLE

	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
Interest from group undertakings	—	1,327
Other interest receivable	—	2,191
	<u>—</u>	<u>3,518</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
Interest payable on bank borrowings	24,109	30,816
Amortisation of deferred financing costs	3,071	3,512
	<u>27,180</u>	<u>34,328</u>

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit in the period

	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
Current tax		
Group relief - current period	(7,759)	(9,243)
Tax credit on profit on ordinary activities	<u>(7,759)</u>	<u>(9,243)</u>

Factors affecting current tax credit

The differences between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax in the UK of 28.5% (2007: 30%) to the profit before tax is as follows:

	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
Profit on ordinary activities before taxation	<u>139,019</u>	<u>143,748</u>
Profit on ordinary activities before tax multiplied by standard rate of tax of 28.5% (2007: 30%)	39,620	43,124
Income from group undertakings – non taxable	(47,379)	(54,283)
Impairment of fixed asset investment – non taxable	-	1,916
Total current tax credit	<u>(7,759)</u>	<u>(9,243)</u>

6. DIVIDENDS

	Year to 31 Dec 08 £000	Year to 31 Dec 07 £000
Amounts recognised as distributions to equity holders in the year		
Interim dividends paid in January and June 2008 totalling 8.92p per ordinary share (2007: 9.85p per ordinary share)	<u>110,000</u>	<u>121,500</u>
Amounts not recognised as distributions to equity holders in the year		
2007: Interim dividends paid in January and June 2008 in respect of year end 31 December 2007 totalling 8.92p per ordinary share	<u>-</u>	<u>110,000</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

7. INVESTMENTS

	Subsidiary undertakings £000
COST	
At 1 January and 31 December	<u>1,410,527</u>
PROVISIONS FOR IMPAIRMENT	
At 1 January and 31 December	<u>(43,252)</u>
NET BOOK VALUE	
At 31 December 2007 and 2008	<u>1,367,275</u>

The Company has holdings in the issued share capital of the companies listed below.

Name and nature of business	Country of incorporation and registration	Type of share	Effective shareholding
Direct subsidiary undertakings			
Drax Group Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company)	Cayman Islands	Ordinary	33.3%
Drax GCo Limited (non trading company)	England and Wales	Guarantee	100%
Indirect subsidiary undertakings			
Drax Intermediate Holdings Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company)	Cayman Islands	Ordinary	66.7%
Drax Electric Limited (in members' voluntary liquidation) (holding company)	Cayman Islands	Ordinary	100%
Drax Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Power Limited (power generation)	England and Wales	Ordinary	100%
Drax Ouse (dormant company)	England and Wales	Ordinary	100%
Drax Investments Limited (investment company)	England and Wales	Ordinary	100%

All subsidiary undertakings operate in their country of incorporation. All subsidiary undertakings have 31 December year ends, except for Drax Holdings Limited, which has a 30 December year end.

8. DEBTORS

	2008 £000	2007 £000
Amounts due from other group undertakings	<u>9,825</u>	<u>4,826</u>

The amounts due from other group undertakings excluding group relief bear interest at a rate of LIBOR plus 1%, payable on 30 June and 31 December each year. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

9. CREDITORS: Amounts falling due within one year

	2008 £000	2007 £000
Bank loans and overdrafts	14,882	9,862
Amounts owed to other group undertakings	88	—
Accruals	139	134
	<u>15,109</u>	<u>9,996</u>

The amounts due to other group undertakings bear interest at a rate of LIBOR plus 1%, payable on 30 June and 31 December each year. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

The Company's bank borrowings are guaranteed and secured by the Company and each of its direct and indirect subsidiary undertakings, as set out in note 7 to the financial statements.

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

	2008 £000	2007 £000
Bank loans and overdrafts	<u>350,038</u>	<u>386,987</u>

Analysis of bank borrowings

As at 31 December 2008			
	Borrowings before deferred finance costs £000	Deferred finance costs £000	Net borrowings £000
Term loans	370,000	(5,080)	364,920
Less amounts falling due within one year	<u>(15,000)</u>	<u>118</u>	<u>(14,882)</u>
Amounts falling due after more than one year	<u>355,000</u>	<u>(4,962)</u>	<u>350,038</u>
As at 31 December 2007			
	Borrowings before deferred finance costs £000	Deferred finance costs £000	Net borrowings £000
Term loans	405,000	(8,151)	396,849
Less amounts falling due within one year	<u>(10,000)</u>	<u>138</u>	<u>(9,862)</u>
Amounts falling due after more than one year	<u>395,000</u>	<u>(8,013)</u>	<u>386,987</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

10. CREDITORS: Amounts falling due after more than one year (*continued*)

The term loans were subject to a fixed amortisation profile ending on 31 December 2010 and debt service payments are due to be made semi-annually on 30 June and 31 December. Payment profiles for repayment of debt set out above were based on the fixed minimum repayment profile on facilities at 31 December 2008. Repayments above the fixed minimum repayment profile are permitted subject to the amount of cash available for debt service.

Term loans repayments of £17.5 million were made on each of 30 June 2008 and 31 December 2008. Previously, repayments of £40.0 million were made on each of 29 June 2007 and 31 December 2007. All repayments have been made in line with the target repayment profile as a result of the levels of cash available for debt service.

The deferred finance costs are being amortised to interest payable over the duration of the term loan facilities.

Subsequent to the end of the year, £32.5 million of the terms loans was repaid on 30 June 2009 in line with the target repayment profile, and a further £105m was repaid on 31 July 2009 using the proceeds of a share placing by Drax Group plc. This left a balance of £232.5 million outstanding under the term loans.

On 3 August 2009, the Group completed the refinancing of the outstanding term loan facilities and its £100million working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012 to coincide with the maturity of the Group's £200million letter of credit facility, which remains in place. After a scheduled repayment of £32.5 million due in December 2009, and £65 million in 2010, the remaining balance of £135 million at December 2010 will now be repaid in four equal instalments over the period to December 2012, at which point it will have been repaid in full.

The terms of the new facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The current margin on the existing facilities of 0.8% has also been increased to be consistent with the margin in the new agreement.

The Company's bank borrowings are guaranteed and secured by the Company and each of its direct and indirect subsidiary undertakings, as set out in note 7 to the financial statements.

Maturity of borrowings

The maturity profile of the carrying amount of the Company's borrowings at the balance sheet date was as follows:

	2008 £000	2007 £000
Amounts falling due after more than one year		
In more than one year but not more than two years	350,038	9,484
In more than two years but not more than five years	—	377,503
	<u>350,038</u>	<u>386,987</u>

The effective interest rates at the balance sheet dates were as follows:

	2008 %	2007 %
Term loans	4.09	6.01

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

11. DERIVATIVES AND FINANCIAL INSTRUMENTS NOT INCLUDED AT FAIR VALUE

The Company issues or holds financial instruments relating to the financing and risks of the debt portfolio.

As permitted by the standards, the Company has not voluntarily adopted the fair value aspects of FRS 25 'Financial Instruments: Disclosure and Presentation' and FRS 26 'Financial Instruments: Measurement'. The potential impact of these standards on the Company's financial instruments is shown below.

	2008		2007	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	<u>-</u>	<u>(7,254)</u>	<u>2,312</u>	<u>(297)</u>

Interest rate swaps

The Company enters into interest rate swap arrangements to hedge variable interest costs on bank borrowings. As required under the terms of the Drax Group credit facilities agreement, on 5 January 2006 the Company entered in to interest rate swap contracts with notional principal amounts of £250.0 million, and with a similar repayment profile as the term loan, therefore at 31 December 2008 the notional principle amounts remaining were £150.0 million (2007: £162.5 million).

12. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by paragraph 3(c) of FRS 8 'Related Party Disclosures', not to disclose transactions with other Drax Group companies. The Companies House fees were borne by a subsidiary undertaking.

13. SHARE CAPITAL

Authorised share capital

	2008 £000	2007 £000
2,000,000,000 Ordinary shares of £0.001 each	<u>2,000</u>	<u>2,000</u>

Allotted, called-up and fully paid

	Number	2008 £000	Number	2007 £000
Ordinary shares of £0.001 each	<u>1,233,091,002</u>	<u>1,233</u>	<u>1,233,091,002</u>	<u>1,233</u>

14. RECONCILIATION OF SHAREHOLDER'S FUNDS AND MOVEMENTS ON RESERVES

	Share capital £000	Profit and loss account £000	2008 Total share- holder's funds £000	2007 Total share- holder's funds £000
At 1 January	1,233	973,981	975,214	943,723
Profit for the year	-	146,778	146,778	152,991
Equity dividends paid (note 6)	-	(110,000)	(110,000)	(121,500)
At 31 December	<u>1,233</u>	<u>1,010,759</u>	<u>1,011,992</u>	<u>975,214</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2008

15. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company is Drax Group plc, a publicly listed company incorporated in England and Wales. Drax Group plc is the smallest and largest group for which consolidated financial statements are prepared. Copies of the consolidated financial statements for Drax Group plc are available from: Company Secretary, Drax Power Station, Selby, North Yorkshire, YO8 8PH.