

Company Registration No. 05562058

DRAX FINANCE LIMITED

Report and Financial Statements

31 December 2010

TUESDAY



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DRAX FINANCE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2010

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DRAX FINANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

YEAR ENDED 31 DECEMBER 2010

Board of directors

Dorothy Thompson
Peter Emery
Tony Quinlan

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

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2010

The directors present the report and the financial statements of the Company for the year ended 31 December 2010

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 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 was 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 £147.1 million (2009 £176.5 million) The directors do not recommend payment of a final dividend in respect of 2010 (2009 £nil)

Subsequent to the year end the Company declared and paid an interim dividend in January 2011 in respect of the year end 31 December 2011, totalling £65.3 million, equivalent to 5.3 pence per share (2009 interim dividend paid in January 2009, totalling £134.0 million, in respect of the year ended 31 December 2009)

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 that of the Company's wholly owned subsidiaries, 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 throughout the full year are listed under Officers and professional advisers (page 1) No other person served as director or alternate director during the year

DRAX FINANCE LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2010

DIRECTORS' RESPONSIBILITIES

The directors are responsible for preparing the annual report and 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). Under company law the directors must not approve the financial statements unless they are satisfied that they 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 period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK 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 adequate accounting records that are sufficient to show and explain the Company's transactions and 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 2006. They 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

Each of the persons who is a director at the date of approval of this report confirms that

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- the director has taken all steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

This confirmation is given and should be interpreted in accordance with the provision of s 418 of the Companies Act 2006

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditors in the absence of an Annual General Meeting

By order of the directors



PHILIP HUDSON
Company Secretary
23 March 2011

DRAX FINANCE LIMITED

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDER OF DRAX FINANCE LIMITED

We have audited the financial statements of Drax Finance Limited for the year ended 31 December 2010 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members 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 members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' responsibilities statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit.



Dean Cook MA FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK
23 March 2011

DRAX FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2010

	Note	Years ended 31 December	
		2010	2009
		£000	£000
OPERATING LOSS	2	-	(31)
Income from shares in group undertakings		159,427	187,610
Interest receivable	3	10	827
Interest payable and similar charges	4	(17,140)	(16,183)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		142,297	172,223
Tax on profit on ordinary activities	5	4,796	4,308
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		147,093	176,531

All results relate to continuing operations

There are no material differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents

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 2010

		As at 31 December	
		2010	2009
	Note	£000	£000
FIXED ASSETS			
Investments	7	1,367,544	1,367,544
CURRENT ASSETS			
Debtors	8	17,281	13,829
Cash at bank		15	11
		<u>17,296</u>	<u>13,840</u>
CREDITORS: Amounts falling due within one year	9	<u>(118,334)</u>	<u>(200,399)</u>
NET CURRENT LIABILITIES		<u>(101,038)</u>	<u>(186,559)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,266,506</u>	<u>1,180,985</u>
CREDITORS: Amounts falling due after one year	10	<u>(64,890)</u>	<u>(126,462)</u>
NET ASSETS		<u>1,201,616</u>	<u>1,054,523</u>
CAPITAL AND RESERVES			
Called-up share capital	13	1,233	1,233
Profit and loss account	14	1,200,383	1,053,290
TOTAL SHAREHOLDER'S FUNDS	14	<u>1,201,616</u>	<u>1,054,523</u>

The financial statements of Drax Finance Limited, registered number 05562058, were approved by the Board of directors on 23 March 2011

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 2010

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the going concern basis (see page 2), under the historical cost convention, and in accordance with Companies Act 2006 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 400(1)(a) of the Companies Act 2006, 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 asset 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 LOSS

The Company has no employees other than the directors, whose remuneration was borne by another group undertaking in the current and prior year. Auditor's remuneration for audit services to the Company (allocated as £1,000 in both periods) and Companies House fees were borne by another group undertaking

3. INTEREST RECEIVABLE

	Years ended 31 December	
	2010	2009
	£000	£000
Interest from group undertakings	<u>10</u>	<u>827</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Years ended 31 December	
	2010	2009
	£000	£000
Interest payable on bank borrowings	10,804	10,411
Interest owed to group undertakings	4,088	2,941
Amortisation of deferred financing costs	2,248	2,831
	<u>17,140</u>	<u>16,183</u>

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit in the period

	Years ended 31 December	
	2010	2009
	£000	£000
Current tax		
Group relief - current year	(4,796)	(4,308)
Tax credit on profit on ordinary activities	<u>(4,796)</u>	<u>(4,308)</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% (2009 28%), to the profit before tax is as follows

	Years ended 31 December	
	2010	2009
	£000	£000
Profit on ordinary activities before taxation	<u>142,297</u>	<u>172,223</u>
Profit on ordinary activities before tax multiplied by standard rate of tax of 28% (2009 28%)	39,843	48,222
Effect of		
Income from group undertakings – non taxable	(44,639)	(52,530)
Total current tax credit	<u>(4,796)</u>	<u>(4,308)</u>

6. DIVIDENDS

	Years ended 31 December	
	2010	2009
	£000	£000
Amounts recognised as distributions to shareholder in the year.		
Interim dividend paid in January 2009 in respect of year end 31 December 2009 totalling 10 9p per ordinary share	-	134,000
	<u>-</u>	<u>134,000</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

7. INVESTMENTS

	Subsidiary undertakings £000
COST	
At 1 January and 31 December 2010	1,410,796
PROVISIONS FOR IMPAIRMENT	
At 1 January and 31 December 2010	(43,252)
NET BOOK VALUE	
At 1 January and 31 December 2010	<u>1,367,544</u>

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

	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 33%
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 67%
Drax Electric Limited (in members' voluntary liquidation) (dormant company)	Cayman Islands	Ordinary	100%
Drax Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Power Limited (trading company, 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%
Haven Power Limited (trading company, power retail)	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.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

8. DEBTORS

	As at 31 December	
	2010	2009
	£000	£000
Amounts falling due within one year		
Amounts due from other group undertakings	17,193	13,762
Prepayments and other debtors	88	67
	<u>17,281</u>	<u>13,829</u>

The amounts due from other group undertakings excluding group relief bear interest at a rate of LIBOR plus 3.5%, 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.

9. CREDITORS: Amounts falling due within one year

	As at 31 December	
	2010	2009
	£000	£000
Bank loans and overdrafts	61,571	62,751
Amounts owed to other group undertakings	56,763	135,399
Accruals	-	2,249
	<u>118,334</u>	<u>200,399</u>

The amounts due to other group undertakings bear interest at a rate of LIBOR plus 3.5%, 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.

Further details on the Company's bank borrowings are set out in note 10.

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

	As at 31 December	
	2010	2009
	£000	£000
Bank loans and overdrafts	<u>64,890</u>	<u>126,462</u>

Analysis of bank borrowings

	As at 31 December 2010		
	Borrowings before deferred finance costs £000	Deferred finance costs £000	Net borrowings £000
Term loans	135,000	(8,539)	126,461
Less amounts falling due within one year	(67,500)	5,929	(61,571)
Amounts falling due after more than one year	<u>67,500</u>	<u>(2,610)</u>	<u>64,890</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

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

Analysis of bank borrowings *(continued)*

	As at 31 December 2009		
	Borrowings before deferred finance costs	Deferred finance costs	Net borrowings
	£000	£000	£000
Term loans	200,000	(10,787)	189,213
Less amounts falling due within one year	(65,000)	2,249	(62,751)
Amounts falling due after more than one year	135,000	(8,538)	126,462

Scheduled term loan repayments of £32.5 million were made on each of 30 June and 31 December in 2010 and 2009. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

On 3 August 2009, the Company completed the refinancing of the term loan facility and the £100 million working capital facility which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012.

Future scheduled debt repayments are £67.5 million in each of 2011 and 2012, after which point the term loan will have been repaid in full.

Payment profiles for repayment of debt set out above are based on the fixed minimum repayment profile on facilities. Repayments above the fixed minimum repayment profile are permitted subject to the amount of cash available for debt service.

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

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.

The Company provides security and guarantees to Drax Power Limited which would crystallise in the event of Drax Power Limited defaulting on the terms of a Novation and Trading Agreement with Barclays Bank PLC. At 31 December 2010 the outstanding obligations amounted to £50 million (2009 £nil). These obligations are also guaranteed and secured by other members of the Drax Group plc group. No liability is provided as the likelihood of the event of default is considered remote.

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

	As at 31 December	
	2010	2009
	%	%
Term loans	<u>7.45</u>	<u>5.93</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

11. DERIVATIVES AND FINANCIAL INSTRUMENTS NOT INCLUDED AT FAIR VALUE

The Company has derivatives which are not included at fair value in the accounts, the fair values attributable to these derivatives are as follows

	2010		2009	
	Assets	Liabilities	Assets	Liabilities
	£000	£000	£000	£000
Interest rate swaps	-	(4,593)	-	(7,267)

Interest rate risk

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 both denominated in sterling and has a variable LIBOR rate. The Company mitigates this risk with interest rate hedges on a proportion of its debt facilities. Information about the Company's instruments that are exposed to interest rate risk and their repayment schedules is included in note 10.

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 Forward Start credit facilities agreement, on 22 October 2009, the Company entered into interest rate swap contracts with notional principal amounts of £95.0 million, and with a similar repayment profile as the term loan, therefore at 31 December 2010 the notional principle amounts remaining were £67.5 million (2009 £82.5 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. Costs in respect of auditor's and Companies House fees were borne by another group undertaking.

13. SHARE CAPITAL

Authorised share capital

	2010	2009
	£000	£000
2,000,000,000 Ordinary shares of £0.001 each	2,000	2,000

Allotted, called-up and fully paid

	2010		2009	
	Number	£000	Number	£000
Ordinary shares of £0.001 each	1,233,091,002	1,233	1,233,091,002	1,233

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2010

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

			2010	2009
	Share capital	Profit and loss account	Total shareholder's funds	Total shareholder's funds
	£000	£000	£000	£000
At 1 January	1,233	1,053,290	1,054,523	1,011,992
Profit for the year	–	147,093	147,093	176,531
Equity dividends paid (note 6)	–	–	–	(134,000)
At 31 December	1,233	1,200,383	1,201,616	1,054,523

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.