

Company Registration No. 05562058

DRAX FINANCE LIMITED

Report and Financial Statements

31 December 2014

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DRAX FINANCE LIMITED

FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

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DRAX FINANCE LIMITED

OFFICERS AND PROFESSIONAL ADVISERS

YEAR ENDED 31 DECEMBER 2014

Board of directors

Dorothy Thompson (resigned 21 October 2014)
Paul Taylor
Peter Emery
Tony Quinlan (resigned 31 May 2015)
Michael Scott (appointed 21 October 2014)

Company Secretary

Philip Hudson

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PH

Auditor

Deloitte LLP
2 New Street Square
London
EC4A 3BZ

DRAX FINANCE LIMITED

STRATEGIC REPORT

YEAR ENDED 31 DECEMBER 2014

The directors present their strategic report for Drax Finance Limited (the "Company") for the year ended 31 December 2014. The directors, in preparing this strategic report, have complied with s414C of the Companies Act 2006.

This strategic report contains forward-looking statements. These statements are made by the directors in good faith and based on the information available to them at the time of their approval of this report and such statements should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

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 "the Group"). This is expected to continue in the foreseeable future.

Profit after tax for the year amounted to £201.3 million (2013: £72.3 million). The increase in profit reflects the flow of dividends received from a wholly owned subsidiary, Drax Group Limited, as part of the liquidation and winding up of that company.

In May 2014, the Company agreed a new private placement for £100 million with various funds managed by M&G investments. This provides additional liquidity and ensures a smooth profile of debt maturities ranging from 2017 to 2035. The new loan facilities were fully drawn down at the year end.

The financing arrangements also include a £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme, a £50 million amortising term loan facility with the UK Green Investment Bank, a £100 million amortising term loan facility with the M&G UK Companies Financing Fund and a £400 million working capital and letter of credit facility, all of which were raised in prior years. The working capital and letter of credit facility has been extended for one year and is now due to mature in April 2017.

This funding has been provided to other members of the Group.

DRAX FINANCE LIMITED

STRATEGIC REPORT (*continued*)

YEAR ENDED 31 DECEMBER 2014

PRINCIPAL RISKS AND UNCERTAINTIES

The Company has a comprehensive system of governance controls in place to mitigate risks. Policies, procedures and internal controls have been established across the key areas of the business to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Board.

The Drax Group Risk Management Committee is responsible for monitoring the risk management process, ensuring that all risks associated with a specific area of the business are identified, analysed and managed systematically and appropriately. This Committee also forms part of the wider risk management processes of Drax Group plc.

Financial Risk

The Company is exposed to interest rate risk principally in relation to its bank debt, and historically has sought to mitigate this risk with interest rate hedges on a proportion of its debt facilities. In May 2014, the Company agreed a new £100 million amortising loan facility, £70 million of which is an index linked loan. No new interest rate swaps have been taken out to the date of the approval of these financial statements; however this risk management tool remains available to the Company.

Approved by the Board and signed on its behalf by:



PHILIP HUDSON
Company Secretary
9 September 2015

DRAX FINANCE LIMITED

DIRECTORS' REPORT

YEAR ENDED 31 DECEMBER 2014

The directors present their report and the financial statements of the Company for the year ended 31 December 2014.

RESULTS AND DIVIDENDS

The Company's profit after tax for the year amounted to £201.3 million (2013: £72.3 million). During the year dividends were paid totalling £55.0 million in May and September 2014, equivalent to 4.5 pence per share (2013: £78.8 million in May and October). Since the year end the Company has paid a final dividend of £29.0 million in May 2015 (2013: £36.0 million).

GOING CONCERN

On the basis of their assessment of the Company's financial position and that of the Company's wholly owned subsidiaries, together with recent performance and near-term forecasts, 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 are listed under Officers and Professional Advisers (page 1). No other person served as director or alternate director during the year.

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.

DRAX FINANCE LIMITED

DIRECTORS' REPORT *(continued)*

YEAR ENDED 31 DECEMBER 2014

AUDITOR AND THE DISCLOSURE OF INFORMATION TO THE AUDITOR

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 auditor is 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 auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provision of Section 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 auditor in the absence of an Annual General Meeting.

By order of the directors



PHILIP HUDSON
Company Secretary

9 September 2015

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 2014 which comprise the profit and loss account, the balance sheet and the related notes 1 to 14. 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2014 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.

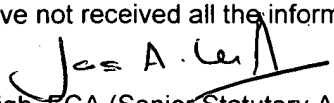
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and 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.


James Leigh FCA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, UK

9 September 2015

DRAX FINANCE LIMITED

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 DECEMBER 2014

	Note	Years ended 31 December	
		2014	2013
		£000	£000
OPERATING LOSS	2	(112)	-
Income from shares in group undertakings		216,365	84,425
Interest receivable and similar income	3	1,904	73
Interest payable and similar charges	4	(18,854)	(16,129)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		199,303	68,369
Tax credit on profit on ordinary activities	5	1,970	3,898
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		201,273	72,267

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 9 to 15 form part of these financial statements.

DRAX FINANCE LIMITED

BALANCE SHEET

31 DECEMBER 2014

		As at 31 December	
		2014	2013
	Note	£000	£000
NON-CURRENT ASSETS			
Investments	7	1,742,555	1,592,544
Debtors	8	100,000	-
		<u>1,842,555</u>	<u>1,592,544</u>
CURRENT ASSETS			
Debtors	8	17,220	15,253
Cash at bank		280	88
		<u>17,500</u>	<u>15,341</u>
CREDITORS: Amounts falling due within one year	9	<u>(88,275)</u>	<u>(85,526)</u>
NET CURRENT LIABILITIES		<u>70,775</u>	<u>(70,185)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>1,771,780</u>	<u>1,522,359</u>
CREDITORS: Amounts falling due after one year	10	<u>(319,017)</u>	<u>(215,825)</u>
NET ASSETS		<u><u>1,452,763</u></u>	<u><u>1,306,534</u></u>
CAPITAL AND RESERVES			
Called-up share capital	12	1,233	1,233
Profit and loss account	13	1,451,530	1,305,301
TOTAL SHAREHOLDER'S FUNDS	13	<u><u>1,452,763</u></u>	<u><u>1,306,534</u></u>

The financial statements of Drax Finance Limited, registered number 05562058, were approved by the Board of directors on 9 September 2015.

Signed on behalf of the Board of directors:



Michael Scott
Director

The notes on pages 9 to 15 form part of these financial statements.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2014

1. ACCOUNTING POLICIES

Basis of accounting

The financial statements have been prepared on the going concern basis (see page 4), 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.

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 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.

The operating loss is as a result of legal and professional fees incurred during the year in relation to the liquidation of subsidiary companies.

3. INTEREST RECEIVABLE

	Years ended 31 December	
	2014	2013
	£000	£000
Interest from group undertakings	1,904	-
Bank interest receivable	-	73
	<u>1,904</u>	<u>73</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

4. INTEREST PAYABLE AND SIMILAR CHARGES

	Years ended 31 December	
	2014	2013
	£000	£000
Interest payable on bank borrowings	13,584	10,993
Interest payable to group undertakings	2,278	2,262
Amortisation of deferred financing costs	2,992	2,874
	<u>18,854</u>	<u>16,129</u>

5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit in the period

	Years ended 31 December	
	2014	2013
	£000	£000
Current tax		
Group relief - current year	(1,970)	(3,898)
Tax credit on profit on ordinary activities	<u>(1,970)</u>	<u>(3,898)</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 21.50% (2013: 23.25%), to the profit before tax is as follows:

	Years ended 31 December	
	2014	2013
	£000	£000
Profit on ordinary activities before taxation	<u>199,303</u>	<u>68,369</u>
Profit on ordinary activities before tax multiplied by standard rate of tax of 21.50% (2013: 23.25%)	42,850	15,896
Effect of:		
Non-taxable dividends from group undertakings	(44,820)	(19,794)
Total current tax credit	<u>(1,970)</u>	<u>(3,898)</u>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

6. DIVIDENDS

	Years ended 31 December	
	2014 £000	2013 £000
Amounts recognised as distributions to shareholder in the year:		
Final Dividend for year ended 31 December 2013 – paid in May 2014	36,018	-
Interim Dividend 2014 – paid in September 2014	19,026	-
Final Dividend for year ended 31 December 2012 – paid in May 2013	-	31,277
Interim Dividend 2013 – paid in October 2013	-	47,557
	55,044	78,834

7. INVESTMENTS

	Subsidiary undertakings £000
COST	
At 1 January 2014	1,635,796
Additions	1,100,021
Disposals	(950,010)
At 31 December 2014	1,785,807
PROVISIONS FOR IMPAIRMENT	
At 1 January and 31 December 2014	(43,252)
NET BOOK VALUE	
At 31 December 2014	1,742,555
At 1 January 2014	1,592,544

During the year the Group commenced a project to simplify and reduce the number of non-trading and dormant companies within the group. This involved the distribution of assets and restructuring of shareholdings prior to placing certain companies into voluntary solvent liquidation. The additions and disposals noted above reflect the changes in shareholdings with the Company now owning 100% of the shareholding in Drax Holdings Limited.

The impairment relates to historic adjustments made in 2006 and 2007. No subsequent indication of impairment has been identified, hence no adjustment has been made in 2014.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

7. INVESTMENTS *(continued)*

At the balance sheet date, the Company had 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	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company)	Cayman Islands	Ordinary	100%
Drax GCo Limited (non-trading company)	England and Wales	Guarantee	100%
Indirect subsidiary undertakings			
Drax Power Limited (trading company, power generation)	England and Wales	Ordinary	100%
Drax Ouse (dormant company)	England and Wales	Ordinary	100%
Drax Fuel Supply Limited (trading company, fuel supply)	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.

Following the year end, on 9 March 2015, Drax Group Limited was formally placed into solvent voluntary liquidation.

8. DEBTORS

	As at 31 December	
	2014	2013
	£000	£000
Amounts falling due within one year		
Amounts due from other group undertakings	17,229	14,861
Trade and other receivables	-	392
	<u>17,229</u>	<u>15,253</u>
As at 31 December		
	2014	2013
	£000	£000
Amounts falling due after one year		
Amounts due from other group undertakings	100,000	-
	<u>100,000</u>	<u>-</u>

The amounts due to other group undertakings bear a commercial rate of interest, which is rolled over and capitalised until payment on fixed repayment dates as set out in the loan agreement.

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

9. CREDITORS: Amounts falling due within one year

	As at 31 December	
	2014	2013
	£000	£000
Amounts owed to other group undertakings	87,625	84,951
Accruals	632	575
Current tax liability	18	-
	<u>88,275</u>	<u>85,526</u>

The amounts due to other group undertakings bear a commercial rate of interest, payable at regular intervals with due dates set according to the terms of each individual agreement. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

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

	As at 31 December	
	2014	2013
	£000	£000
Bank loans and overdrafts	<u>319,017</u>	<u>215,825</u>

Analysis of bank borrowings

	As at 31 December 2014		
	Borrowings before deferred finance costs	Deferred finance costs	Net borrowings
	£000	£000	£000
Term loans	325,000	(5,983)	319,017

	As at 31 December 2013		
	Borrowings before deferred finance costs	Deferred finance costs	Net borrowings
	£000	£000	£000
Term loans	225,000	(9,175)	215,825

In May 2014, the company agreed a new private placement for £100m with various funds managed by M&G investments. The new loan facilities, which were fully drawn down at the year end, enhance the financing structure executed in previous years by providing additional liquidity and a smoother profile of debt maturities.

In April 2013, the Company agreed a new £75 million amortising term loan facility with Friends Life, underpinned by a guarantee from HM Treasury under the Infrastructure UK Guarantee Scheme. The financing arrangements also include a £50 million amortising term loan facility with the UK Green Investment Bank and a £100 million amortising term loan facility with the M&G UK Companies

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

Financing Fund. Both raised in prior years.

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

Analysis of bank borrowings *(continued)*

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.

Similarly, 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 its commodity trading line, or its revolving credit facility. At 31 December 2014 commodity trades with a value of £109.8 million (2013: £13.0 million) and foreign exchange trades with a mark-to-market of £102 million (2013: £245 million) were secured under these facilities respectively.

In addition, the Company provides security and guarantees to other group undertakings in respect of letters of credit issued under the Group's revolving credit facility. At 31 December 2014 letters of credit issued under the revolving credit facility amounted to £58.7 million. (2013: £64.7 million).

No liability is provided in respect of any of the above matters as the event of default is considered to be remote in each case.

The weighted average interest rate payable at the balance sheet date on our term loans was 4.19% (2013: 4.65%).

11. 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 wholly owned group companies. Costs in respect of auditor's and Companies House fees were borne by another group undertaking.

12. SHARE CAPITAL

Authorised share capital

	2014 £000	2013 £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	2014 £000	Number	2013 £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>

DRAX FINANCE LIMITED

NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2014

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

			2014	2013
	Share capital	Profit and loss account	Total shareholder's funds	Total shareholder's funds
	£000	£000	£000	£000
At 1 January	1,233	1,305,301	1,306,534	1,313,101
Profit for the year	-	201,273	201,273	72,267
Equity dividends paid (note 6)	-	(55,044)	(55,044)	(78,834)
At 31 December	1,233	1,451,530	1,452,763	1,306,534

14. 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, or on the Group's website at www.drax.com.