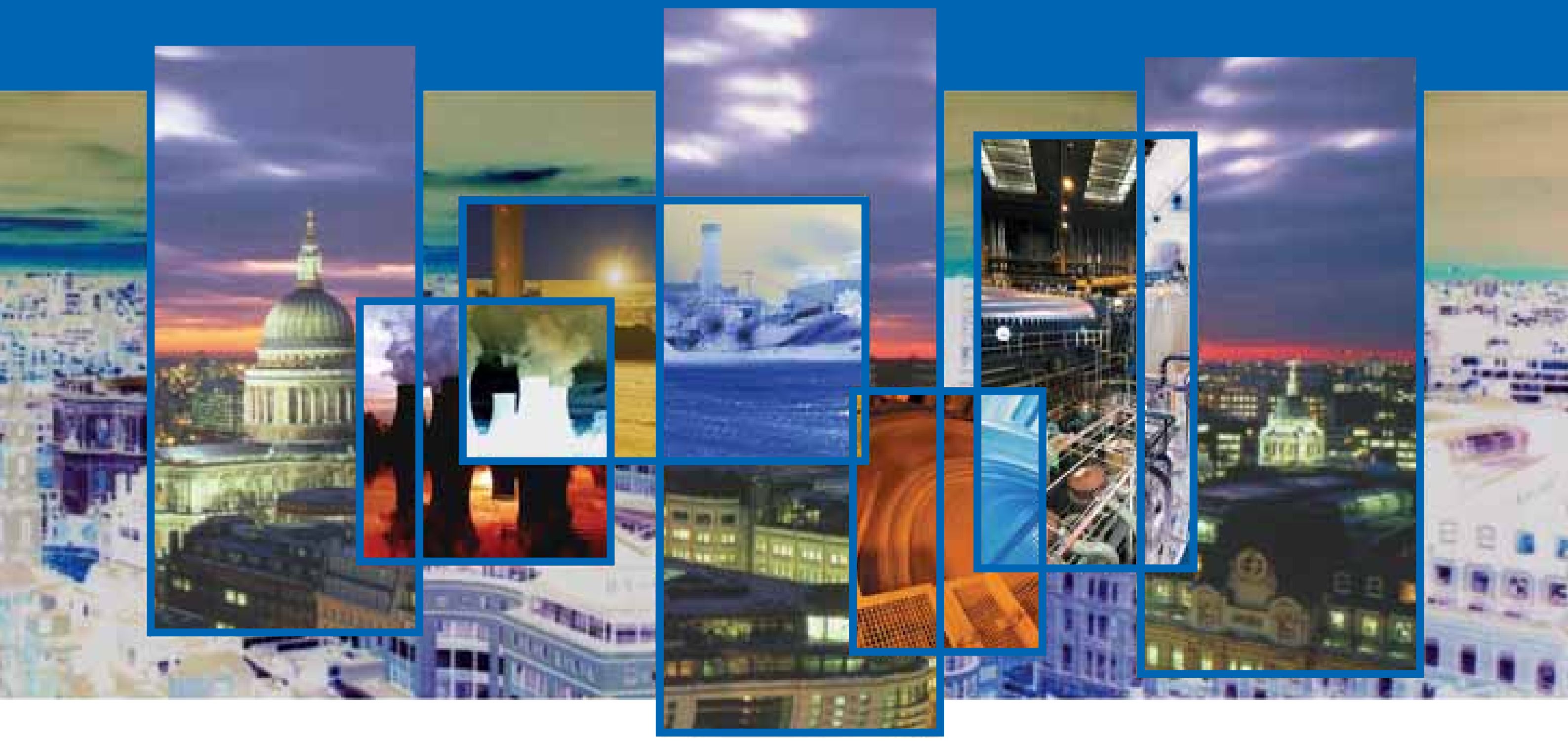
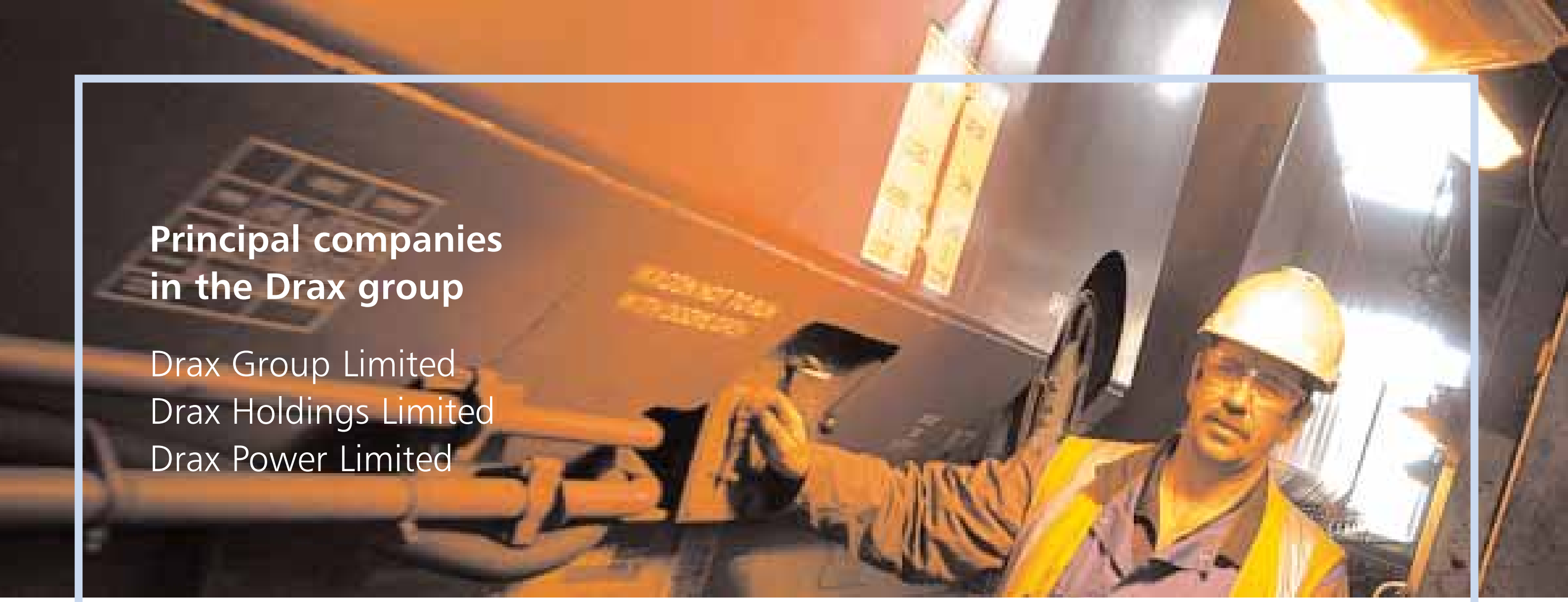
the power to provide



annual review for the drax group
and
accounts for drax holdings limited
2004

Drax Group Limited



Principal companies in the Drax group

Drax Group Limited
Drax Holdings Limited
Drax Power Limited

drax group summary

Drax Group Limited is the ultimate holding company of Drax Power Limited, the owner of Drax Power Station, situated near Selby, North Yorkshire. Drax Holdings Limited is an intermediate holding company with no material operations.

Drax Power Station is the largest, cleanest and most efficient coal fired power station in the UK. The total output capacity from the Station's six generators is 4,000MW. All units are fitted with flue gas desulphurisation equipment, which removes around 90% of the sulphur dioxide from emissions. It is a fully merchant power station, and at current output levels supplies some 7% of the UK's electricity needs.

As well as being an important strategic asset nationally, Drax Power Station is also vital to the local economy. Drax Power employs some 560 people directly and, through its use of local sub-contractors and outsourcing, supports many other jobs indirectly in the Selby area. It is also the major customer for a number of the UK's remaining coal mines.

highlights[1]

	2004[2]	**2003**
Turnover (£m)	549.3	471.1
Gross Profit (£m)	239.4	187.4
EBITDA (£m)	90.2	(50.9)

Notes:
1. Consolidated financial results for Drax Holdings Limited for the year ended 31 December.
2. Unaudited and provided for comparative purposes only.

contents

chairman’s statement

Introduction

This is the first Annual Review of the business of the Drax group of companies. It reports on the operations of Drax Power Limited (“Drax Power”), the operating subsidiary of Drax Group Limited (“Drax Group” or the “Group”); it includes a financial review at the level of Drax Holdings Limited (“Drax Holdings”); and it includes reports on corporate and social responsibility, the arrangements for corporate governance and the remuneration of the directors.

Through the ownership of Drax Power Station, the Group is the largest independent generating company in the UK. The Station is the largest, cleanest and most efficient coal fired power station in the country with an output capacity of 4,000MW. Operating on a fully merchant basis, Drax Power currently provides enough power to meet 7% of the UK's electricity needs.

Our customers are predominantly the vertically integrated companies and in selling our output we rely on there being a wholesale market that has high and regular liquidity. Only under such conditions will the market see prices truly reflect the fundamentals of supply and demand. We will continue to observe market behaviour and make appropriate representations in the interests of delivering a fully competitive, efficient and liquid market.

Transforming a Plant into a Business

The 12 months that have followed the successful financial restructuring of the Group have been both challenging and exciting as we have progressively transitioned from what had always been a plant within a portfolio to a free-standing independent generating business.

At last year’s annual meeting with investors on 12 March 2004, the Board shared its priorities set out in the Annual Plan (the “Plan”). We started the year with a number of clear priorities ranging from financial and operational performance, through recruitment and organisational change, to safety. I am pleased to report that, whilst some tasks are by their nature continuing, substantial progress has been made in all areas.

The transition of Drax Power to an independent business necessitated a thorough review of the existing resources, identification of the gap between what we had and the requirements for the future, and a complementary recruitment and development programme to secure the necessary skills.

At Board level we have made progress in satisfying the requirements of the Shareholders' Agreement. In December 2003, joining myself, as Chairman and Gerald Wingrove, as Chief Executive, Mike Grasby was appointed as a non-executive director. Mike has a wealth of electricity industry experience and particular knowledge of the plant from his years as Station Manager. In June 2004, Peter Emery joined us from Esso as our Production Director. At the end of June, Tim Barker joined us as a non-executive director, bringing with him extensive investment banking and non-executive board experience. Gordon Boyd joined the Board, from British Energy, as Finance Director in January 2005.

Following a number of years' association with the Power Station, Lord Taylor of Blackburn retired from the Board at the end of June 2004, but he remains an advisor to the Board on Parliamentary matters and continues to give us the benefit of his sound common sense.

On 19 April 2005, recognising the near completion of the transition of the plant to a business, Gerald Wingrove stepped down as Chief Executive of the Board. The Board wishes to thank Gerald for his valuable contribution to the development of the business. A search for a new Chief Executive is in hand.

Other appointees filling key roles in 2004 were Paul Taylor as Head of Trading, Steve Halliday as Head of Risk Management, Peter Rothwell as Company Secretary and Company Solicitor, and Gary Law as Head of Procurement. All of these individuals bring a wide range of new skills and experience to complement the strengths of the existing team at Drax Power.

Within the business, our staffing structures and responsibilities have been revised to suit better the needs of an independent business. We have progressively introduced a performance culture, principally through monthly team appraisals complemented by the introduction of a plant-wide bonus plan linked to annual performance and the Long Term Incentive Plan approved by shareholders in April 2004.

Whilst further development and a limited amount of recruitment are still needed, we are confident that, when completed, we shall have all the key skills and experience for the business to prosper.

Results for 2004[1]

Our financial results overall for 2004 showed a sound performance with both gross profit and EBITDA exceeding the Plan at £239.4m and £90.2m respectively (compared to £229.2m and £78.1m respectively in the Plan). Interest payments were made in full on the A1, A2 and A3 debt and a payment of £8.3m was made on account of the B debt interest. In addition, we have achieved the principal hedging target set out in our loan agreements of covering A1 and A2 debt service payments for 2005 and 2006.

Operational performance of the plant during 2004 was mixed. Our flue gas desulphurisation ("FGD") plant delivered an exceptional performance, whilst we experienced a number of unusual and, we believe, one-off generator problems. Against an underlying background of improving plant reliability, these problems have resulted in an overall forced outage rate worse than we had planned. Through an increased focus on preventative maintenance work, we believe costs and outage periods will be reduced, and the effects of maintenance deficiencies accumulated over several years will be made good.

During 2005, our operational effort will be focused on increasing the overall value of the business through improved plant reliability and availability, and alternative fuel programmes. The year will present us with many challenges but we have started 2005 confident in the ability of the business to deliver enhanced earnings and cash flow.

Re-Financing and Listing

The financial collapse of the UK operations of TXU in late 2002 meant the loss of a customer for some 60% of the plant's output and precipitated our own financial problems, which were addressed in the restructuring completed in 2003. Following two years of negotiations, in early December 2004 we advised our stakeholders that we had secured an offer to agree our claim against TXU at a figure of some £348m and sought the support of our B lenders to accept the settlement proposals put forward by the administrators of TXU. On the administrators' "realistic" basis, Drax Power could eventually receive payment of its principal claim broadly in full. We received a substantial first distribution of some £214m at the end of March 2005, and it is envisaged that further distributions will be received during 2005 and 2006.

The Group is obliged to apply all receipts, after VAT and a payment of £2.5m, towards the discharge of its B debt. As a result, significant future interest savings will arise and the balance sheet will be significantly de-geared. Your Board believes this is an excellent result. Furthermore, it is a key step towards preparing the Company for a re-financing of some or all of its current debt.

The current capital structure was developed during 2003 in agreement with its then senior creditors as a secure basis for the business to emerge from its then financial difficulties. It has served that purpose well. Your Board believes, however, that significant progress has now been made to establish Drax Power as a well-managed and sound business that delivers value to all stakeholders. This will require us to consider introducing a more appropriate captial structure. Achieving this improvement will necessitate a re-financing coupled with a listing of the equity, and the Board is presently engaged in a review of the Group's capital structure with advice from Dresdner Kleinwort Wasserstein. Proposals for this important next step in the story of Drax Power will be put to stakeholders in 2005.

We have sought throughout 2004 a policy of openness and accessibility in our relationships with our shareholders. We intend to continue that policy during 2005, consistent at all times with our responsibilities to the market, but, where appropriate, maintaining commercial confidentiality.

Corporate Strategy

Key corporate targets for 2005 are in place for all aspects of the business and with the objective of fulfilling these, or exceeding them where possible, and pursuing various strategic options, we aim to improve on our performance of last year.

Our other priorities for 2005 will remain broadly the same as in 2004 with the principal aim of improving our financial and operating position to ensure that we maximise our cash generation capability. This will secure current debt servicing and allow a re-financing and with it the prospect of an associated unstapling of A2 and A3 debt from the equity and its subsequent listing.

Consistent with this, we aim to increase the overall value of the business and to form a basis for future equity returns. Business enhancement opportunities exist in the areas of plant operations, trading opportunities, and fully exploiting cross-functional teamwork opportunities between production and trading. Business extension opportunities are presented through our biomass activities and through other site development prospects. Furthermore, a re-financing coupled with an equity listing would enable business initiatives beyond the Drax Power Station site to be taken where these are capable of enhancing returns to shareholders.

Our People

Finally, I should like to thank the staff of Drax Power. Most of them experienced the disheartening effects of the past financial problems, yet, over the past year, their cooperation in the changes to work practices and culture has been commendable. Those new to the business have similarly demonstrated encouraging commitment and enthusiasm.

Gordon Horsfield
Chairman

20 April 2005

[1] *Consolidated financial results for Drax Holdings Limited for the year ended 31 December 2004 (unaudited).*

operating and financial review
for drax holdings limited

Introduction

Drax Holdings is an intermediate holding company with no material operations. The Company is entirely dependent on the receipt of distributions from its direct and indirect subsidiaries to meet its financial obligations. Drax Power is a wholly owned subsidiary and owns the Drax Power Station.

The Company completed a financial restructuring of its debt pursuant to a scheme of arrangement (the "Scheme") with its creditors under section 425 of the Companies Act 1985 of England and Wales and section 86 of the Companies Law (2003 Revision) of the Cayman Islands. The Scheme was sanctioned by the Grand Court of the Cayman Islands on 15 December 2003 and the High Court of Justice of England and Wales on 17 December 2003 and became effective on 22 December 2003.

The first full 12 months of trading following the restructuring have been satisfactory overall. Higher electricity prices and a good trading performance offset the effects of the three unusual forced outages. For 2004, turnover increased to £549m (£471m in 2003), gross profit increased to £239m (£187m in 2003) and operating profit was £58m (£83m operating loss in 2003).

operating review

for drax holdings limited

Operations

In the year ended 31 December 2004, Drax Power Station secured an average load factor of 69.1% and sold 22,730GWh of electricity.

Plant Performance Statistics

	Period ended	
	31 December 2004	31 December 2003
Forced Outage Rate (%)	11.8	7.2
Planned Outage Rate (%)	7.8	7.9
Load Factor (%)	69.1	75.2
Energy Sales (GWh)	22,730	24,904
Efficiency (TEMP) (%)	96.89	96.80

Forced Outage Rate and Planned Outage Rate

The forced outage rate for the year was 11.8% (7.2% in 2003) with three major incidents contributing to the adverse performance. Unit 6 experienced a stator hydrogen leak as a result of a poorly fitted rubber compression joint; Unit 5 rotor experienced a bearing failure following a post outage start-up and Unit 3 stator experienced a lead connection failure. Together these three incidents comprised some 5.1% out of the total of 11.8%, with other equipment on the plant operating much as expected. The Unit 3 failure is the subject of an insurance claim with £2.5m being included as recoverable in the accounts for the period ended 30 December 2004.

We do not expect three such incidents to reoccur in any one year. However, there can be no certainty that other unplanned events will not occur in future years.

The planned outage rate for the year was 7.8% and in line with our internal target. Following completion of the 2004 planned outage programme, all units at the Power Station are now on a four-year major overhaul cycle. Planned outages for 2005 include a major outage on Unit 6 in line with our rolling outage programme.

Improved plant availability is a major deliverable for the production team in 2005 with work being targeted at reducing planned and forced outage rates. For planned outages, the focus will be on improved planning and the introduction of tighter controls during the outage. For forced outages, we have introduced new reliability groups which are organised by equipment types. These groups comprise a cross-functional mix of craftsmen, engineers and supervisors whose objectives are to reduce unplanned capacity loss and outages in their area. In 2005, the groups will implement action plans which were developed in the final quarter of 2004.

Load Factor and Energy Sales

The load factor in the year was 69.1% (75.2% in 2003). The load factor achieved in any one year is influenced by three key factors: plant availability; electricity prices; and marginal costs of production. Plant availability refers to the amount of time the plant is capable of generating after deducting planned and forced outages. Plant availability in the year ended 31 December 2004 was adversely affected by the level of forced outages. Electricity prices and marginal costs of production have a direct bearing on load factor because even if plant is available to run it may not be economic to do so if, for example, electricity prices are lower than the marginal costs of production. Marginal costs of production mainly comprise the cost of fuel, some operations and maintenance costs, Balancing Services Use of System charges, plant start-up costs and from 1 January 2005, the cost of carbon.

With the introduction of carbon emissions trading from 2005, we will incur additional costs to the extent that we generate in excess of the level of generation supported by our allocation of carbon allowances under the National Allocation Plan. This will have a direct bearing on our marginal costs of production and may, therefore, influence load factor.

Energy sales for the year ended 31 December 2004 were 22,730GWh (24,904GWh in 2003) and were adversely affected by the level of forced outages.

Plant Efficiency

Thermal Efficiency Monitoring Programme (TEMP) is a measure of the efficiency of plant performance and in 2004 it averaged 96.89% (96.80% in 2003). The improvement over 2003 was achieved through plant investment and improved equipment maintenance.

In 2005 we are targeting incremental improvements on the level achieved in 2004.

FGD Performance

The FGD plant performed exceptionally well and operated at above target for the year in terms of both removal efficiency and availability. Maintenance programmes and new practices over the year helped to deliver this improved performance.

Coal

With the closure of UK Coal's Selby Complex and as a result of some delivery problems from existing contracts, Drax Power steadily increased its burn of Scottish and imported coal. This trend is expected to continue in 2005. Supporting this change whilst meeting emissions constraints is a major challenge requiring careful stock management and the completion of several projects to help control emissions of particulate matter and oxides of nitrogen.

Emissions

We work hard to maintain and where possible improve our environmental performance. Looking ahead, environmental constraints are set to increase and will be the critical parameter affecting coal burn in the period up to 2020 and beyond. We continue to invest to reduce our emissions to the levels required by the EU Large Combustion Plant Directive ("LCPD"), which limits the amount of sulphur dioxide ("SO_2"), oxides of nitrogen ("NO_X") and particulate matter emitted from combustion plant. Drax Power Station already complies with the SO_2 limits, and we are currently investing in systems to further reduce emissions of NO_X ahead of the 1 January 2008 implementation date.

The immediate environmental constraint for us is carbon as set by the EU Emissions Trading Scheme (the "EU ETS"), which was implemented on 1 January 2005. The EU ETS imposes a cap and trade regime on the carbon dioxide ("CO_2") emissions from the major industrial installations across the EU in two phases, 2005-07 and 2008-10. This impacts significantly on the generation sector, and coal fired generation in particular.

It is known that final carbon allowance allocations granted to the generation sector will translate to a shortfall in output compared to previous years. However, it is widely assumed that the sector will have to purchase carbon allowances from the pan-European market to make good that shortfall; this will increase the marginal cost of production. In addition to our carbon allowance granted under the EU ETS, we anticipate that we will need to purchase additional allowances to meet the market demand for our power. In the longer term, we wish to reduce our reliance on purchasing carbon allowances by substituting renewable biomass fuel for some coal.

Biomass
Burning biomass has the twin benefit of reducing carbon emissions and providing an additional revenue source through the sale of ROCs. Trials on various biomass materials during 2004 have provided the opportunity to increase their use significantly, although they will always remain a relatively small proportion of our total fuel burn. In the last quarter of 2004, the Environment Agency authorised the use of tall oil to replace heavy fuel oil on all six units. During 2005, we will seek to burn tall oil to support generation operations whenever it is economic to do so.

For solid biomass, the objective will be to increase the burn rate without compromising generating capacity. This will be supported by several projects aimed at providing storage facilities on site, improving the weighbridge infrastructure and providing direct injection facilities which by-pass the milling process.

We have also expended considerable effort in encouraging local farmers and growers to plant energy crops to meet our future requirements.

The progress made to date with biomass puts us in a strong position to make a significant contribution to the Government's renewables target. However, existing restrictions in the regulations for co-firing mean that our important contribution in the years to come will be constrained, unless decisions are taken to remove the technology bias introduced through the Renewables Obligation. We will continue to make our representations to the Government on this important issue.

Petroleum Coke
In June 2004, we received approval from the Environment Agency to conduct a trial burn of a blend of coal and petroleum coke ("petcoke") on one unit. The authorisation is for a period of 18 months and we are aiming to commence the trial in June 2005.

Health and Safety
Health and safety remains our highest priority. In 2004, we established a company health and safety committee as a sub-committee of the Board and together with the implementation of new processes and procedures, we made a significant improvement in our health and safety performance during the second half of 2004. A new safety initiative sees us twinned with one of our competitors in a venture which will benefit both parties through sharing important experiences and learning.

Trading

The trading part of the business covers all of the commodity elements of our operations from coal procurement to long term power sales, and includes the purchase of carbon allowances. The principal objectives of our trading strategy are to optimise the physical inputs and outputs of the plant, and to enhance the value of the business, while securing our ability to cover operating, capital and financing costs throughout the commodity price cycles.

In the short term, our trading strategy focuses on ensuring that our output is sold in each period where prices exceed our marginal cost of production and in a way that exceeds market prices. Our trading team was successful in achieving these two objectives during 2004, with our level of unsold power at a creditable 1.7%, since this measure was introduced in August 2004.

Our current capital structure is highly robust and does not require any medium or long term hedging to enable us to meet our commitments. However, the demand for such bi-lateral contracts, particularly in the two to five year timeframe, appears to be increasing, and where these will add value to the business we will pursue them.

We continue to strengthen our trading team which faces new challenges in 2005 with the introduction of carbon trading.

Power and Other Sales
In the year, Drax Power sold 22,730GWh of electricity at an average capture price of £23.00/MWh. In 2003,

operating review continued

for drax holdings limited

we sold 24,904GWh at an average capture price of £18.15/MWh. The capture price achieved reflects the impact of power sold forward in 2003 for delivery in 2004, as well as market prices prevailing in 2004.

Power prices recovered from a low of £16.19/MWh in January 2003 to £22.52/MWh in January 2004. They reached a high of £39.25/MWh in October 2004 before falling back to £28.00/MWh in December 2004.

The wholesale power market remains relatively illiquid and as a consequence volatile. This requires careful management of the trading position and despite this volatility we achieved our main hedging target of covering A1 and A2 debt service payments for the years 2005 and 2006.

In addition to the contracted sale of power, we operate in the Balancing Mechanism, provide ancillary services to the national grid, sell ROCs and market by-products from our generating activities, namely, ash and gypsum. These activities generated net sales of £26.3m in 2004 compared with £19.3m in 2003.

Coal

Our coal procurement strategy is focused on acquiring coal of the right quality at below market prices. In 2004, the prices actually achieved were 11.4% below market against a target of 5% below.

International coal prices opened the year at £1.64/GJ peaking at £2.08/GJ in June before falling back to £1.88/GJ in December 2004. The differential increase in coal and power prices (the 'dark spread') and good trading performance led to increased margins in 2004.

financial review

for drax holdings limited

Drax Holdings has adopted a new accounting reference date of 30 December and its accounts for 2004 have been prepared and audited on this basis. The reason for the change is to enable the Company to review the financial effects of the implementation of a new accounting standard, FRS 25, which applies to accounting periods beginning on or after 1 January 2005 for all companies which adopt UK GAAP.

Adopting a new accounting reference date requires the consent of the Instructing Group in accordance with the requirements of the Company's finance facility (the "Facility Agreement").

Previous years have not been restated and, therefore, for comparative purposes the financial review also makes reference to the years ended 31 December 2004 (on an unaudited basis) and 2003.

	Period ended		
	30 December 2004 (£m)	31 December 2004 (unaudited) (£m)	31 December 2003 (£m)
Turnover	547.0	549.3	471.1
Cost of Sales	308.7	309.9	283.7
Gross Profit	238.3	239.4	187.4
Operating Profit/(Loss)	57.2	57.9	(83.0)
EBITDA	89.5	90.2	(50.9)
(Loss) Before Taxation	(110.9)	(110.7)	(324.4)
(Loss) After Taxation	(84.4)	(84.1)	(320.0)
Fixed Assets	1,041.1	1,041.0	1,060.2
Net Current (Liabilities)/Assets	(83.6)	(82.8)	121.3
Capital and Reserves	(850.6)	(850.4)	(766.2)

Results Summary

Operating profit for the period ended 30 December 2004 was £57.2m after exceptional items totalling £0.8m. For the year ended 31 December 2004, operating profit was £57.9m (unaudited) compared with an operating loss of £83.0m in the prior year. The operating loss for 2003 was after exceptional charges of £105.2m.

The loss before taxation for the period ended 30 December 2004 was £110.9m and for the year ended 31 December 2004 was £110.7m (unaudited) compared with a loss before taxation of £324.4m for 2003.

Debt service payments were made in full on the A1, A2 and A3 debt and a payment of £8.3m was made on account of the B debt interest. Cash available for debt service at £59.4m was, however, below our target of £70.2m. This shortfall was as a result of increased coal carrying costs and debtor levels (emanating from higher power prices). It is not, therefore, representative of the underlying business trends.

Turnover

Turnover for the period ended 30 December 2004 was £547.0m and for the year ended 31 December 2004 was £549.3m (unaudited) compared with £471.1m in 2003, an increase of £78.2m. The increase in turnover reflected higher power prices offset by the effects of plant performance.

Cost of Sales

The principal cost of sales item is coal. Cost of sales for the period ended 30 December 2004 was £308.7m and for the year ended 31 December 2004 was £309.9m (unaudited) compared with £283.7m for 2003, an increase of £26.2m. The 9% increase resulted from higher amounts of more expensive, international coal being consumed and, after taking account of lower output, the like-for-like increase in fuel costs was some 19%.

During the year, we sourced coal from the UK under various contracts and supplemented our requirements with overseas purchases. Our largest supplier is UK Coal, and in July 2004 we announced that we had agreed heads of terms with UK Coal for the delivery of 14 million tonnes of coal over five years. This agreement is in addition to an existing contract with UK Coal scheduled to expire on 31 March 2006. Coal supplied under the existing UK Coal contract is at a fixed price whereas coal under the new agreement will vary within certain agreed parameters.

During 2004, we experienced delivery shortfalls under our existing coal supply contract with UK Coal; these continued into 2005. On 10 February 2005, UK Coal issued a force majeure notice relating to both the existing contract and the new agreement affecting some 750,000 tonnes during the contract year to 31 March 2005 and an estimated 500,000 tonnes in each further year up to the end of the contracts in 2009. Drax Power disputes UK Coal's entitlement to declare force majeure. On 14 February 2005, Drax Power issued a press release notifying that a force majeure notice had been issued and estimating that the financial effect of having to replace delivery shortfalls with higher priced international coal could increase costs and have an adverse impact on the Company's 2005 EBITDA of the order of £10m and on its 2006 EBITDA of less than £5m.

International coal is normally priced with reference to an index, API2. Coal prices were volatile for much of 2004 and this is expected to continue throughout 2005. International coal purchases were more expensive than domestic coal throughout 2003 and 2004. In addition, transportation costs are higher and lead times longer. On 1 September 2004, Drax Power announced that it had signed a long term contract with Associated British Ports for a guaranteed capacity of two million tonnes per annum at the Port of Immingham, with options to extend the tenure and volume of the contract.

Drax Power continues to develop its capability to use alternative renewable fuels in its operations. Renewable fuels have the advantage of both reducing CO_2 emissions and allowing Drax Power to claim ROCs which can be traded to generate additional revenue.

Gross Profit

Gross profit for the period ended 30 December 2004 was £238.3m and for the year ended 31 December 2004 was £239.4m (unaudited) compared with £187.4m in 2003. The increase of £52.0m reflected the effects of higher power prices and good trading performance offset by the higher cost of fuel. The gross margin was 43.6% in 2004 and 39.8% in 2003.

Operating Profit

Operating profit for the period ended 30 December 2004 was £57.2m and for the year ended 31 December 2004 was £57.9m (unaudited) compared with an operating loss of £83.0m in 2003. The operating profit for the year ended 31 December 2004 was after an exceptional charge of £0.8m relating to a release of accruals no longer required (£2.6m credit) and the write-off of a receivable in respect of loans to the Employee Share Ownership Plan established to hold AES shares (£3.4m). The operating loss for 2003 was after making an exceptional charge of £105.2m in respect of restructuring costs and AES inter-company debt write-offs.

Administrative expenses consist primarily of fixed, operational, maintenance and other variable costs. Administrative expenses, before exceptional items, were £182.8m for the period ended 30 December 2004 and for the year ended 31 December 2004 were £183.2m (unaudited) compared with £165.2m in 2003 representing an increase of £18.0m. The increase largely resulted from:

- Increased staffing costs of £5.6m which included the effects of a £2.2m increase in social security and pension costs, the annual pay round and higher staffing levels as Drax Power Station established corporate functions to allow it to operate as a standalone business; and

- An additional £9.3m spend on maintenance aimed at improving reliability.

Administrative expenses included depreciation charges of £32.4m for the year ended 31 December 2004 and £32.1m for 2003.

Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA)

EBITDA is the operating profit/(loss) for the period stated before charging depreciation. For the period ended 30 December 2004, EBITDA was £89.5m and for the year ended 31 December 2004 was £90.2m (unaudited) compared with a loss of £50.9m in 2003.

financial review continued

for drax holdings limited

Loss Before Taxation

Loss before taxation was £110.9m for the period ended 30 December 2004 and for the year ended 31 December 2004 was £110.7m (unaudited) compared with a loss of £324.4m in 2003. Loss before taxation is derived by adding interest income receivable and similar income and deducting interest payable and similar charges from the operating profit or loss. The table below summarises the position for the period ended 30 December 2004 and the years ended 31 December 2003 and 2004.

	Period ended		
	30 December 2004 (£m)	31 December 2004 (unaudited) (£m)	31 December 2003 (£m)
Operating Profit/(Loss)	57.2	57.9	(83.0)
Interest Receivable and Similar Income			
- normal	4.6	4.6	5.8
- exceptional	-	-	34.6
Interest Payable and Similar Charges			
- normal	(172.7)	(173.2)	(180.6)
- exceptional	-	-	(101.2)
(Loss) Before Taxation	(110.9)	(110.7)	(324.4)

Interest receivable and similar income (normal) includes interest earned on restricted cash deposits held within debt service reserve accounts. Restricted cash deposits amounted to £29.1m at 30 December 2004 and increased to £38.2m (unaudited) on 31 December 2004. Restricted cash deposits at 31 December 2003 were £55.1m.

Interest payable and similar charges (normal) relates to the guaranteed secured bonds issued in November 1999 and the further eurobonds issued under the financial restructuring on 22 December 2003.

Interest receivable and similar income for the year ended 31 December 2003 was after exceptional items relating to the financial restructuring. Under the terms of the restructuring, senior secured bonds of $302.4m were first revalued at the effective exchange rate and then cancelled. This resulted in a foreign currency gain of £25.5m. In addition, there was a gain on the extinguishment of debt of £9.1m. Together these items amounted to £34.6m.

Interest payable and similar charges for the year ended 31 December 2003 was after exceptional costs relating to the financial restructuring. Under the terms of the restructuring, deferred financing costs were written off and foreign currency hedging swaps and interest rate hedging swaps were cancelled. This resulted in an exceptional charge of £101.2m.

Taxation

The tax on loss on ordinary activities for the period ended 30 December 2004 amounted to £26.5m and for the year ended 31 December 2004 amounted to £26.6m (unaudited) compared with £4.4m in 2003. The 2004 tax on losses includes £2.3m in respect of prior periods and £24.3m in respect of deferred tax. For the year to 31 December 2003, the Company was carrying a deferred tax provision of £21.8m and as a result of the £24.3m change in respect of deferred tax, a deferred tax asset of £2.6m has been created and is included within debtors. The expectation is that sufficient profits will be generated in the future to be able to fully utilise the deferred tax asset.

The Drax group of companies incur significant interest charges and it is assumed that tax relief on these charges will be available to the group. In the event that the interest charges are not fully tax deductible then significant tax payments could become due.

Fixed Assets

Fixed assets stood at £1,041.1m as at 30 December 2004 and at £1,041.0m (unaudited) at 31 December 2004 compared with £1,060.2m at 31 December 2003. The reduction resulted from capital expenditure of £13.7m in 2004 (£9.6m in 2003) offset by a depreciation charge of £32.4m and deployment of plant spares in the business of £0.6m.

Capital Expenditure

Capital expenditure amounted to £13.7m in 2004 of which £1.8m related to plant spares and £4.3m to installing a Boosted Over-Air Fire ("BOFA") system on one of the generating units. BOFA is one of several initiatives designed to help control emissions of NO_X in advance of the implementation of the LCPD.

In 2005, capital expenditure will increase significantly over 2004 levels and is aimed at adding value to or sustaining existing operations together with several low cost, high return opportunities. The emphasis will be on effective implementation, with some 67% of planned capital expenditure relating to projects already underway. The principal themes underlying the investment plan support continued fuel diversification; ensuring we meet environmental legislative requirements; improved reliability; improved safety; and meeting new safety regulatory requirements.

Working Capital

Total current assets, including cash, stood at £190.6m as at 30 December 2004 and at £192.3m at 31 December 2004 (unaudited) compared with £183.5m at 31 December 2003.

financial review continued

for drax holdings limited

Stocks of raw materials and consumables, which mainly comprise coal were £46.4m at 30 December 2004 and for the year ended 31 December 2004 were £45.2m (unaudited). This represents an annual increase of £9.8m over 31 December 2003 which resulted from increased prices combined with a change in the mix of domestic and international sourced coal and costs associated with ROCs held in stock for future sale.

As at 30 December 2004, debtors stood at £70.2m and as at 31 December 2004 were £72.1m (unaudited), with trade debtors representing £61.1m at 30 December 2004 and £63.5m (unaudited) at 31 December 2004. The increase over 2003 levels (£51.5m) largely resulted from higher electricity prices in 2004.

At 30 December 2004, cash balances stood at £74.0m and at 31 December 2004 were £75.0m (unaudited), a reduction of £13.2m compared with 31 December 2003. The £75.0m included restricted cash deposits of £38.2m which are segregated and are for the sole purpose of meeting debt service payments.

Short term creditors increased by some £213m in 2004, compared with 2003 levels, in anticipation of the receipt of funds from the administrators of TXU, which we are obliged to pay towards the discharge of the B debt.

Pensions

The financial statements have been prepared applying SSAP 24 in respect of pensions. Note 23 to the financial statements provides the disclosures required under the transitional arrangements of FRS 17, the UK accounting standard dealing with retirement benefits. FRS 17 valuations are based on a valuation of assets and liabilities at a particular time and do not necessarily take account of the long term nature of pension schemes. Movements in equity markets and bond yields can create considerable volatility in the FRS 17 valuation at different times.

Under FRS 17, the net pension deficit at 30 December 2004 and at 31 December 2004 was estimated to be £25.5m (£36.5m excluding deferred tax) an increase of £5.3m compared with the position at 31 December 2003 (£7.6m excluding deferred tax). The increase in the value of the pension scheme's assets was more than offset by an increase in the actuarial value of liabilities, resulting principally from the application of lower interest rates in the valuation.

The Company has agreed an additional funding rate of 15.2% of salaries from 1 April 2005 to repair the deficit in accordance with the actuary's recommendations. The Company's normal contribution rises from 11.5% to 13.3% from 1 April 2005.

Liquidity and Capital Resources

The cash flows of the Company are included in the consolidated group cash flow statement of Drax Group whose accounts are publicly available. Accordingly, the Company has taken advantage of the exemption under FRS 1 not to publish a cash flow statement.

Cash balances at 30 December 2004 were £74.0m and at 31 December 2004 were £75.0m (unaudited) compared with £88.2m in 2003. The cash balances comprise two elements: the operating cash balance of the Company; and debt service reserve account balances (including monies held in escrow), which are analysed as follows:

	Period ended		
Account	**30 December 2004 (£m)**	**31 December 2004 (unaudited) (£m)**	**31 December 2003 (£m)**
A1 Interest Debt Service Reserve	29.1	29.9	28.6
A2 Interest Debt Service Reserve	-	-	20.6
A3 Interest Debt Service Reserve	-	-	5.9
B Facility Listing (Escrow)	-	8.3	-
Total	29.1	38.2	55.1

At 30 December 2004, total borrowings stood at £2,020m and at 31 December 2004 stood at £2,021m (unaudited) and comprised: £1,725m original eurobonds due 2015; £338m B facility eurobonds due 2025; £86.5m further eurobonds due 2020; £316m prepaid coupons; and £186m as at 30 December 2004 and £187m (unaudited) as at 31 December 2004 unpaid coupons and accrued interest.

Total borrowings were some £95m higher at 30 December 2004 compared with 2003 as a result of a reduction in prepaid coupons of £14m and an increase in unpaid coupons and accrued interest of £81m.

Interest payable on £1,300m of the £1,725m original eurobonds is at a rate of 8.86% per annum, payable semi-annually; the remainder is interest free. Interest payable on the £338m B facility eurobonds and £86.5m further eurobonds is at a rate of sterling LIBOR plus a margin of 5% and 2% respectively.

Short term liquidity is provided by cash balances, some of which are held in the debt service reserve accounts. The cash balances in these accounts may only be used for the purpose of debt service and stood at £29.1m at 30 December 2004 and £38.2m (unaudited) at 31 December 2004.

In addition, for the operating company, Drax Power, a letter of credit facility of £100m exists solely for trading purposes. As at 30 December 2004, £73.5m of the £100m had been committed.

Financial Instruments and Risk Management
The main financial risks faced by the Company relate to electricity, coal and carbon prices, and currency and interest rates. During 2004, the Company established a risk management committee as a sub-committee of the Board to manage these risks within an agreed framework. The risk management committee is chaired by the Finance Director and reports on proceedings are made to the Board on a monthly basis. Since the financial restructuring on 22 December 2003, work has continued to develop further appropriate risk management policies. These are designed to ensure that risks are managed in a co-ordinated manner and in accordance with the requirements of the Company's debt facility, and that changes to the risk environment, for example the introduction of carbon trading in 2005, are addressed. Considerable progress has been made since the restructuring, but some areas require further improvement and additional recruitment is underway.

Drax Group has substantial amounts of debt, and following the financial restructuring the Group was required to hedge interest rate fluctuations in an amount equal to the full value of certain senior secured indebtedness. As at 30 December and 31 December 2004 the Group had a number of interest rate hedges in place to fix the rate of interest on £400m of senior secured indebtedness.

Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. Unrecognised losses at 30 December 2004 were £17.6m compared with £12.8m at 31 December 2003.

Drax Power has historically purchased coal against fixed priced contracts denominated in sterling, but, increasingly, has been purchasing coal from overseas which tends to be denominated in US dollars and priced against an index. During 2004, Drax Power operated without a dedicated treasury function and only limited currency protection, in the form of forward contracts, was undertaken. Drax Power is now in the process of establishing a dedicated treasury function, which will develop financial risk management policies within the overall framework of a risk management policy agreed by the Board and which is consistent with the requirements of the Company's debt facility.

Post Balance Sheet Events

Issue of Shares by Drax Power to Drax Holdings
On 16 March 2005, following the consent of its shareholders and lenders, Drax Group capitalised its indirect subsidiary, Drax Power. Drax Power issued 200,000,000 ordinary shares of £1 each to Drax Holdings. In exchange, Drax Holdings assigned the right to receive £200,000,000 previously advanced to another subsidiary (Drax Electric Limited) by way of a loan to Drax Power.

Partial Repayment of B Facility Eurobonds
On 30 March 2005, a first distribution of some £214m was received from the administrators and supervisors of TXU Europe Group Plc and TXU Europe Energy Trading Limited pursuant to the company voluntary arrangements for those companies. Amounts received from the first distribution net of VAT and a £2.5m payment to TXU Europe Limited have been paid to B facility eurobond holders.

International Financial Reporting Standards
We are currently considering the applicability and implications of adopting International Financial Reporting Standards (IFRS).

Gordon Boyd
Finance Director

20 April 2005

corporate and social responsibility

Overarching Corporate and Social Responsibility Policy

We recognise the need for Drax Power to operate within a framework that incorporates legislative and regulatory requirements, as well as voluntary policies that reflect society's expectations of a large and highly visible power station. Drax Power operates in the UK wholesale electricity market and is consequently subject to the commercial rigours of a competitive market. Nonetheless, as a responsible business with long term ambitions we balance the demands of being competitive with investment to ensure compliance with increasingly stringent environmental and health and safety requirements, and social responsibility.

Corporate Accountability

The management organisation of the Company reflects the demands of a wholly independent company. This encompasses the requirements of corporate governance from both an external and internal perspective. The Board has oversight of the Company's policies on corporate and social responsibility, and particularly upon relevant environmental, health and safety, and social issues. Well established procedures exist to identify and report on risks and opportunities in these areas. Internal processes have been established which enable Board members and managers to review performance regularly, to set appropriate targets, and to monitor progress against them.

Interaction with the Community

The Company has a wide-ranging external audience, from lenders and noteholders, through Government and the media to non-Governmental organisations and opinion formers. We endeavour to communicate fully with each of our stakeholders through a public affairs and public relations programme aimed at building the reputation of Drax Power. Efforts are directed at maintaining good working relationships with Government, its officials and its agencies, and the media, in particular with the national and regional press. Drax Power is committed to being a 'good neighbour' to its local community and this has entailed rejuvenating and maintaining working relationships with local councils and community involvement through sponsorship activities, site visits and dedicated information.

During 2004, we made charitable donations of £22,765, of which £10,865 were made across a range of community and environmental interests, good causes and sporting activities within a twenty-mile radius of Drax Power Station. The remaining £11,900 were donated through the Company’s '£ for £' matching scheme, under which we match, pound for pound, any monies raised for charity or good causes by employees at the Power Station. No political donations or contributions were made during the year.

We are open and transparent with our emissions data; particularly where there are local concerns about our environmental impacts. Although independent experts have indicated that there would not be any adverse effect on public health from burning a limited quantity of petroleum coke as a supplement to our fuel, recognising local concerns, we are intending to make all the information arising from its use available to the public.

Environmental Policy

The size and characteristics of Drax Power Station mean that it has a significant impact on the environment. We recognise this and have put the management of the environment at the heart of our decision-making process. Our policy is as follows:

“Drax Power recognises its responsibilities to society and the environment and is committed to being an innovative leader in the management of the environment across all its activities and in all its business decisions.

We regard compliance with legislation as a minimum level of achievement and will perform better than required where practical. We are committed to managing, monitoring and reducing where practicable the environmental impacts caused by our business through continual improvement of our operations, in particular emissions to air, discharges to water, disposal of waste and the use of natural resources.

We will maintain a reputation for effective environmental management, in part by certification to the international environmental management system standard, ISO 14001:1996. This system will be used to set and periodically review environmental objectives and targets.

We will discuss our activities with our stakeholders, engaging with them to help refine and broaden our understanding, taking note of their views and investigating any concerns promptly, courteously and professionally.

We will promote environmental awareness amongst our staff, business partners and contractors, ensuring that they understand the environmental aspects of their activities, that they act responsibly and are competent to carry out their jobs.”

Environmental Management System

Drax Power manages its environmental compliance under an Environmental Management System (“EMS”) certified to the international standard ISO 14001. Its purpose is to ensure that the Company meets its legal and policy commitments to protect and improve the environment in the course of carrying out its business.

corporate and social responsibility continued

The EMS covers all activities of the Company's operations. The Chief Executive has overall responsibility for the implementation of the EMS and for environmental compliance and performance of the business, with other staff allocated specific responsibilities as determined by the nature of the environmental impacts for which they are responsible. The EMS contains documented procedures for each significant environmental issue and staff are trained to recognise the legal and operational requirements contained within them.

Key Environmental Impacts

Drax Power's generating units have all been retrofitted with FGD equipment and low NO_X burners to minimise emissions to atmosphere. These emissions are released via the chimney into the atmosphere and can be carried hundreds of miles by weather systems. The dispersion ensures that the Station's contribution to local and national ground level concentrations is very small. In addition, the operation of the Station results in other environmental effects, such as discharges to water, waste material production, and noise. We maintain an up-to-date understanding of the science underlying our impacts in order to contribute to the development of cost-effective control measures.

Drax Power operates within the conditions of its Integrated Pollution Control ("IPC") authorisation, granted by the Environmental Agency and we aim to maintain compliance with no significant breaches of the regulatory limits. We recognise that emission limits will become tighter in the future and our goal is to be ahead of legal requirements for emission reductions whilst recognising the need to maintain our competitive market position.

We maintain investment in our emission abatement equipment and consider this to be a high priority. Our FGD plant already complies with likely future emission limits and we have initiated a programme of retrofitting all units with low NO_X technology in order to ensure compliance with the requirements of the LCPD in 2008.

We are aware of the requirements to reduce CO_2 emissions, and we will continue to identify and use, where commercially viable, CO_2-neutral fuels, such as biomass, to replace fossil fuels, such as coal and heavy fuel oil. We are developing a long term strategy involving energy crops in partnership with local farmers which will significantly reduce CO_2 emissions from the Station and make a valuable contribution to the Government's target for 2010 of 10% of electricity supplied coming from renewable fuels.

Health and Safety

Health and safety is at the heart of Drax Power's corporate responsibility and protecting our employees, contractors, customers and neighbours from ill-health or injury and promoting employee well-being is fundamental to our business philosophy. We are committed to developing and maintaining a positive health and safety culture in which statutory requirements are viewed as a minimum standard and 'world class' performance our goal.

Personal Safety Statistics	2004	2003
Fatality	0	0
Lost Time Accident	8	8
Restricted Work Accident	6	1
Medical Treatment Accident	5	2
First Aid	182	171
RIDDOR[1] Reportable	6	5

Note:

1. *Reporting of Injuries, Diseases and Dangerous Occurrences Regulations*

Accident Frequency Rates	2004	2003
Lost Time Accident Frequency Rate	0.42	0.44
Total Recordable Accident Frequency Rate	0.99	0.60

The increase in total recordable accident frequency rate was attributable to the first seven months of 2004, but with increased focus and management commitment a significant performance improvement was achieved over the second half of the year. The leadership team is committed to sustaining this improvement into 2005 and achieving 'world class' safety performance through an energetic and visible leadership style and clearly understood operational processes before 2007.

A newly introduced incident investigation and review process, together with weekly briefing sessions, provides a fast-track for the identification and review of significant incidents. The process, which complements the existing briefing and consultation process headed by the health and safety advisory committee, has helped promote risk awareness. The process led to the decision to introduce a mandatory gloves policy that has already produced a significant reduction in hand injuries on site.

corporate and social responsibility continued

The Royal Society for the Prevention of Accidents ("RoSPA") completed a quality safety audit in September 2004. This audit provides Drax Power with a good platform for a critical systems review, currently planned for 2005.

'Spotlight on Safety' is the Company's implementation of the internationally proven DuPont™ STOP™ program. This new program, introduced in November 2004, focuses on the reinforcement of good safety practice and the elimination of unsafe acts and is already producing the positive debate and effective actions expected.

Drax Power and ScottishPower Generation UK have initiated a twinning arrangement between Drax and Longannet Power Stations. Both companies are expecting to benefit through this initiative, which commenced in earnest when a group of Drax Power managers and safety representatives visited Longannet in October 2004.

Employment

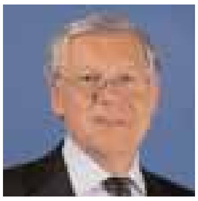
We are establishing a performance culture work ethic, where staff feel valued and want to come to work and perform for the good of the business. We are working towards an industrial relations climate at Drax Power that is positive, with employment policies which respect human rights and equal opportunities as well as facilitating training to develop staff and enhance competence. The Company is committed to the principles of fairness and dignity at work.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicants concerned. In the event of a member of staff becoming disabled, every effort is made to ensure that their employment continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Our apprenticeship programme was re-introduced in September 2003 amidst a growing realisation of a potential future shortfall in skilled workers, particularly in the more traditional craft disciplines. With the long term future of the business in mind, we decided to take steps to secure the right level of human resource and the programme now forms a major component of our policy of investing in our staff.

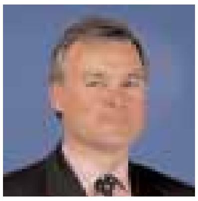
We use a wide variety of communication methods in order to keep people as informed as possible and eradicate confusion, conflict and misinterpretation of messages. For example, team briefings are held once a month where wide-ranging information is communicated throughout the organisation, in addition, plant-wide meetings are held on a regular basis. We have also introduced an IT-based internal feedback system, Drax Talk, allowing employees to anonymously raise concerns or make comments on any work-related issue and receive a publicly accessible response from the leadership team.

board of directors



Gordon Horsfield, Chairman joined the Company in 2003 following his retirement from PricewaterhouseCoopers after 34 years with the firm. Much of his professional career was spent hands-on as a corporate recovery specialist rising to become Head of Corporate Finance and Recovery at Price Waterhouse UK before its merger with Coopers and Lybrand in 1998. Following the merger he was appointed the first Director of Operations of the UK firm responsible for the new firm's finances and for pulling together and rationalising the organisational and support functions. Later he led the team dealing with the sale of its management consulting business to IBM. He is also involved in a number of community activities as Chair of Council of the University of York, as a member of the York Minster Finance Committee and as a member of the Advisory Committee to the Abbot of Ampleforth Abbey.

Gordon Boyd, Finance Director (appointed 10 January 2005) previously held a number of roles within British Energy plc including Director of Corporate Restructuring, Generation Finance Director and Group Treasurer. Prior to this he worked for a number of other companies including Raychem, Mothercare and Cadbury Schweppes. Gordon graduated from Edinburgh University in 1982 with a BCom (Hons), he holds an MBA and has completed the Advanced Management Program at Harvard Business School. He also holds professional accountancy (FCMA) and treasury (MCT) qualifications.



Peter Emery, Production Director (appointed 1 June 2004) achieved a First Class BSc (Hons) degree in Mining Engineering at the University of Nottingham in 1984. After leaving University, Peter joined Esso Petroleum and held a number of managerial roles in the UK before moving to Exxon in the US to co-ordinate its downstream marketing and distribution investments outside North America and Canada. He returned to Esso in 1992 as Plant Technical Services Manager. Following a period as Maintenance Manager, he was appointed Operations Manager at Fawley Oil Refinery in 2002, having full responsibility for the management and operation of the UK's largest refinery.

Mike Grasby, Non-Executive Director retired from International Power in February 2002 after 36 years in the power industry. During his career he held a number of senior positions in the UK and international sectors with the CEGB and National Power. He was manager of Drax Power Station between 1991 and 1995, and Director of Operations for National Power's portfolio until 1998. He was also a director of power companies in Portugal, Turkey and Pakistan. Following the demerger of National Power, he joined International Power as Senior Vice-President, continuing with his international directorships and leading a major consortium in the Czech Republic. He is an advisor to Manx Electricity Authority, a member of the British Energy Association (and the World Energy Council) and a director of an executive recruitment business.

Tim Barker, Non-Executive Director (appointed 30 June 2004) is a non-executive director of Electrocomponents plc, Chairman of Robert Walters plc and a member of the Professional Oversight Board for Accountancy. From 1998 until his retirement in 2000, he was Vice Chairman of Dresdner Kleinwort Benson and from 1993 of Kleinwort Benson Group plc. Notably, he was involved with a number of clients in the energy sector and was an adviser to the Government on the privatisation of the electricity sector. In the mid-1980s, he was Director General of the City Panel on Takeovers and Mergers.

corporate governance

The Board of Drax Group has adopted the objective of compliance (to the extent reasonably practicable) with the Combined Code of Corporate Governance (the "Code") applicable to London-listed companies. This report describes the progress made towards that objective in the first full year of the Company's operation.

The descriptions in this report embrace the arrangements made by the Board of Drax Power for the discharge of its responsibilities. In accordance with the Shareholders' Agreement, the directors of the Company are also the directors of Drax Power.

The Board

The Shareholders Agreement limits the Board to six members. At 31 December 2004, the Board comprised the Chairman, the Chief Executive, the Production Director and two non-executive directors. A Finance Director joined the Company and was appointed to the Board on 10 January 2005. Biographical details of the current directors are given in the previous section.

Gordon Horsfield is the Chairman. In accordance with the commitments given in the Scheme of Arrangement document dated 17 November 2003, he has remained in an executive role throughout 2004, although his time commitment was reduced to a nominal three-day week with effect from 1 July 2004.

Gerald Wingrove was the Chief Executive and was responsible for all aspects of the management of Drax Group and its business, including developing an appropriate business strategy for Board and other necessary approval and, subject to those approvals, securing its timely and effective implementation.

Gordon Boyd has been the Finance Director since 10 January 2005. He is responsible for the financial management of the Group, its risk management systems and systems of internal control, relationships with the Group's bankers and ensuring compliance with the Group's banking covenants.

Peter Emery is the Production Director and responsible for the operation, repair and maintenance of the power generation plant owned by Drax Power.

Tim Barker and Mike Grasby are the non-executive directors.

Through meeting our people informally at the Power Station and through specialist presentations by individual managers, directors are assisted in updating their skills, knowledge and familiarity with Drax Group and its subsidiary, Drax Power. There is an established procedure whereby any director, wishing to do so in the furtherance of his or her duties, may take independent professional advice through the Company Secretary at the Company's expense.

The Board considers that its size, and the fact that it includes only two non-executive directors, makes it inappropriate to appoint a senior independent director at this stage. Either of the non-executive directors is available to shareholders if they have reason for concern, which contact through the normal channels of Chairman or Chief Executive has failed to resolve or for which such contact is inappropriate. The Board considers that each non-executive director is independent in character and judgement and that each also meets the independence criteria set out in the Code.

The Board considers that the balance of the Board with a non-executive Chairman (once Gordon Horsfield no longer has executive responsibilities), two independent non-executive directors and three executive directors is appropriate for the time being.

The Board has developed a formal schedule of matters reserved for its decision-making. It determines Drax Group's strategy, the overall risk management policies, matters that could affect the Group's reputation, public announcements including statutory accounts and key performance indicators, the Group's remuneration policy, and Board structure, composition and succession. Prime responsibility for the operation of the Drax Power Station and the pursuit of its trading strategy in conformity with the policies of the Board and the requirements of Drax Group's finance facility rest with the Board of Drax Power. The Chairman ensures that the directors receive accurate, timely and clear information.

Under the Company's Articles of Association as amended at the EGM of the Company on 30 April 2004, all directors seek election at each AGM.

Committees of the Board

The audit committee, formally constituted in July 2004, comprises Tim Barker (Chairman), Gordon Horsfield and Mike Grasby. The primary functions of the committee are to: review the reporting of financial and other information to shareholders; review the systems of internal control and risk management; and to maintain an appropriate relationship with the Company's auditors and to keep under review the scope, results and cost effectiveness of each audit and the independence and objectivity of the auditors of the Company and its subsidiaries. The Board expects that next year it will be able to report compliance with those aspects of the Code relating to the responsibilities of audit committees. The committee reviewed the independence and objectivity of the external auditors prior to approval of the accounts for 2004, and will keep their independence and objectivity under review. An engagement and fee approvals process is in place in respect of the auditors and requires prior committee approval for some engagements and excludes others. In some cases, the nature of the advice sought may make it more timely and cost-effective to select the auditors who already have a good understanding of Drax Group. The auditors are also subject to professional standards which safeguard the integrity of the auditing role performed on behalf of shareholders.

The remuneration committee comprises Gordon Horsfield (Chairman), Tim Barker and Mike Grasby. Its primary role is to ensure the executive directors and senior managers are fairly rewarded for their individual contributions to Drax Group's overall performance, giving due regard to the financial and commercial health of the Group. The remuneration for the non-executive directors is determined by the Board (see Remuneration Report).

The risk management committee is a committee of the Board of Drax Power. It comprises Gordon Boyd (Chairman), Peter Emery and the Head of Risk Management. Prior to the appointment of Gordon Boyd, this committee was chaired until October 2004 by Gerald Wingrove and, thereafter, until January 2005 by Gordon Horsfield. Its establishment is a requirement of the Facility Agreement, which also prescribes its core responsibilities, some of which would normally be undertaken by the audit committee of the Board of a listed company. More detail is given below under Risk and Internal Control.

The company health and safety committee is a committee of the Board of Drax Power. It comprises Mike Grasby (Chairman), Peter Emery and the Head of Safety. Its role is to monitor, on behalf of the Board of Drax Power, the health and safety performance of the Company and to report to the Board on the effectiveness of the management systems in place to control health and safety risks.

The Board has concluded that it is not appropriate, at this stage, for it to establish a nomination committee because of the small size of the Board and because the constitution of the Board must comply with the requirements of the Shareholders' Agreement. The Board has agreed that, in the event that a vacancy arises, it will observe the applicable principles of the Code.

During the year, candidate searches resulted in two directors being appointed to the Board: the Production Director, Peter Emery; and Tim Barker, one of the two non-executive directors. Each was recruited externally, and in each case, the appointments were made on merit and against objective criteria. The appointment of the Finance Director, Gordon Boyd, in January 2005 was also made in accordance with this process.

Meetings of the Board and its Committees

The table below sets out the number of meetings of the Board and committees of Drax Group and Drax Power during the year, and individual attendance by Board members at these meetings.

	Drax Group Limited			Drax Power Limited		
	Board	**Audit Committee**	**Remuneration Committee**	**Board**	**Risk Management**	**Health and Safety**
Total number of meetings during the year	6	2	4	13	41	1
Executive Director						
Gordon Horsfield	6	2	4	13	17	N/A
Gerald Wingrove	6	N/A	N/A	13	39	1
Peter Emery (appointed 1 June 2004)	4	N/A	N/A	8	16	1
Non-Executive Director						
Mike Grasby	5	1	4	11	N/A	1
Tim Barker (appointed 30 June 2004)	3	2	2	5	N/A	N/A
Lord Taylor of Blackburn (resigned 30 June 2004)	2	N/A	2	5	N/A	N/A

Performance Evaluation
During much of the year the Board's principal focus was upon the activities necessitated by completion of the financial restructuring on 22 December 2003, but the following progress has been made in performance evaluation:

- Collective Performance
  - A new executive committee (which is a management group and not a committee of the Board) has been created to facilitate coordination of operational decision-making;

  - The Chief Executive and Production Director have been deputed to conduct a series of performance reviews of each manager's area of responsibility and, in so doing, to examine whether day-to-day working relationships are effective; and

  - The Board agenda is kept under review, the aim being to improve the focus on business performance, reliability and relationships with stakeholders.

- Individual Performance
  - The executive directors including, in 2004, the Chairman, have had their performance individually reviewed by the remuneration committee against objectives set annually and with the benefit of feedback from senior managers. Remuneration is linked to these reviews and is determined by the remuneration committee.

Risk and Internal Control
The Facility Agreement requires Drax Group's overriding corporate objective to be to minimise the risk of not servicing in full the A1 and A2 debt whilst maintaining the Group's exposure to the power market at a level such that it can benefit from market opportunities. The Facility Agreement also requires compliance with a prescribed trading and risk management policy which, among other things, sets objectives for the extent of forward power sales relative to debt service obligations and prohibits speculation and sales on the basis that the price payable changes by reference to movements in the market price of electricity. As noted above, the Facility Agreement also requires there to be a risk management committee of the Board of Drax Power (the “RMC”). Its core role is to ensure that the risk management practices and policies applied to manage the financial risks of the business of Drax Power remain in line with the business objectives evidenced by the requirements of the Facility Agreement. It reviews and monitors risk management practices and policies, as necessary; prepares an annual risk management operating plan as part of Drax Group's annual planning and forecasting process; and reviews cash and commodity balances and contracted positions in respect of all commodities on a monthly basis.

One consequence of the December 2003 financial re-structuring was that the Drax Power generating business became an independent self-sustaining business. The range and depth of managerial skills and support resources available to the Company at the beginning of the year was not that necessary for independent existence. Accordingly, as envisaged by Drax Group's business plans, a Production Director, a Head of Trading and a Head of Risk Management were recruited and joined the Company towards the middle of the year, with a Finance Director joining in January 2005.

For most of the year, the RMC met weekly and took significant trading-related decisions. In the fourth quarter, a review of its working practices resulted in a change to bi-weekly meetings and a focus on its core role, both as envisaged and prescribed by the Facility Agreement. As a result, traders and others are now operating within more clearly defined limits and policies.

Through the audit committee, the Board takes overall responsibility for Drax Group's approach to assessing risk and the systems of internal control and for monitoring their effectiveness. This responsibility includes oversight of the RMC, which reports directly to the Board of Drax Power.

Executive management is responsible for implementing the policies of Drax Power on risk and control, and for providing assurance of compliance with these policies. The external auditors provide independent assurance. All employees are accountable for operating within these policies and within the confines of a scheme of delegation of authority.

The limitations inherent in any system of internal control mean that Drax Power's systems are designed to manage, rather than eliminate, the risk of failure to achieve corporate objectives. Accordingly, it can only provide reasonable but not absolute assurance against material mis-statement or loss.

Risk Assessment
Risk assessment processes now exist covering aspects of Drax Group's business including plant health and safety, trading, operations and financial risk in accordance with a risk management operating plan. It is planned to develop a formal risk profile for the Group over the coming year, which will be supported by processes for identifying, evaluating and managing the significant risks faced by the Group.

Internal Control
The Board seeks to maintain full control and direction over appropriate strategic, financial, organisational and compliance issues. It has delegated to executive management the implementation of the systems of internal control within an established framework.

corporate governance continued

The Board has put in place an organisational structure with formally defined lines of responsibility and delegation of authority. The Facility Agreement imposes detailed requirements in respect of planning and budgeting, and monthly and quarterly reporting. These include:

- The preparation each December, and agreement with representatives of Drax Group's lenders, of an annual plan which includes revenue and capital expenditure budgets and a risk management operating plan for the following year;
- The preparation every six months, and agreement with representatives of Drax Group's lenders, of a forecast for the business for the next eighteen months; and
- The delivery to lenders' representatives of a monthly performance report in an agreed form.

Relations with Shareholders
We are committed to communicating with all shareholders and, to that end, Drax Group publishes its financial results quarterly and publishes news of material developments on its web site at www.draxpower.com. It also organises quarterly conference calls and periodic presentations.

The Chairman ensures that the Board is regularly updated on shareholder views and upon changes in the register of shareholders during the year.

Relations with Employees
A consultative culture has been established at Drax Power Station for many years. In practice, this is applied on both a formal and informal basis, depending on the issue, and involves both the staff and their elected representatives. Generally, encouragement is given to resolving issues at 'team' level. On those occasions where an issue either affects all or most employees or where issues are unable to be resolved locally, then a more formal approach is taken in accordance with the appropriate documented Company procedure.

The company committee is established as the formal route for consultation with staff representatives. The committee is made up of elected staff representatives and company representatives and usually meets on a monthly basis. The committee has specific terms of reference, but is established predominantly to deal with any issues arising out of the application of terms and conditions of employment. It is also used as a means of keeping representatives up-to-date on a whole range of business issues.

Additionally, during 2004 an IT-based upward feedback mechanism, Drax Talk, was introduced allowing any employee to raise concerns or ask questions of the leadership team anonymously and to have them publicly answered.

Compliance with the Code
The directors consider that material progress towards compliance in full with the Code was made during the year.

remuneration report

Remuneration Committee of Drax Group
The members of the committee during 2004 were Gordon Horsfield (Chairman), Lord Taylor of Blackburn, Mike Grasby and Tim Barker. With the exception of Gordon Horsfield, all members of the committee are independent, non-executive directors. Gordon Horsfield has retained an executive role until the Board is established and has been operating satisfactorily for a period. Lord Taylor of Blackburn was a member of the committee until his retirement from the Board on 30 June 2004; he was replaced by Tim Barker on 30 June 2004. The committee makes recommendations to the Board in accordance with the committee's terms of reference.

The committee undertakes the performance measurement of the executive directors and senior managers, and the determination of their annual remuneration package. It does so within the limits set by the remuneration policy approved by shareholders at the EGM on 30 April 2004.

The Chairman, Gordon Horsfield, takes no part in discussions relating to his own remuneration, bonus award, or award under the terms of the Long Term Incentive Plan (“LTIP”).

The committee keeps itself fully informed of all relevant developments and best practice in the field of remuneration and seeks advice where appropriate from external advisors. Peter Newhouse & Co has provided advice to the committee on directors', senior managers' and team leaders' remuneration during the course of the past year.

The former Chief Executive and the Head of Human Resources, where appropriate, have assisted the committee in its tasks, except in relation to their own remuneration.

Remuneration Strategy
Drax Power depends on the skills, experience and commitment of all its employees throughout all levels of the business. The objective of the Company's remuneration policy is to:

- Strengthen teamwork at all levels;
- Motivate all staff to help Drax Power meet challenging performance goals; and
- Enable the Company to recruit and retain the expertise needed to consolidate and develop its business.

It is part of our strategy to have a well-balanced remuneration package to attract, motivate and retain quality individuals, and deliver improved performance.

Non-Executive Directors' Remuneration
Fees for the non-executive directors are determined by the Chairman and executive directors and are designed to:

- Recognise prevailing market rates for non-executive directors' fees;
- Reflect the responsibilities and time commitment of non-executive directors; and
- Attract and retain individuals with the necessary skills and experience to contribute to the future growth of the Company.

The non-executive directors are paid a basic monthly fee of £3,000 with additional fees of £420 per month payable for each committee membership. These fees are neither performance-related nor pensionable. The non-executive directors do not participate in the Company's annual bonus plan nor do they participate in the LTIP.

The non-executive directors have service agreements with the Company which may be terminated by either party on giving one month's notice.

Executive Directors' Remuneration
Directors' remuneration packages are designed to attract, motivate and retain individuals of the calibre required to maintain Drax Power's position as a market leader and to reward them for enhancing value to shareholders.

The remuneration package comprises: salary; benefits; variable pay; and pension.

Salaries and benefits are benchmarked against equivalent market salaries for large utilities, power generators and other companies with a similar turnover and market value, and are currently set around the median point of the comparator group.

The performance-related element of the remuneration package forms a significant proportion of potential total pay. There are two components to variable pay: annual bonus and long term incentives. Executive directors may earn up to 60% of their annual salary as an annual bonus payment together with awards under the LTIP.

Salary
Executive directors' basic salaries are reviewed annually or when an individual changes position or responsibility. The basic salaries of the executive directors were reviewed with effect from 1 July 2004. Current annual salaries for executive directors are shown in the directors' emoluments table at the end of this report.

Benefits In Kind
Executive directors receive a car allowance, private medical insurance, life assurance, and, where appropriate, temporary accommodation expenses. They receive no other benefits in kind.

Annual Bonus
As provided for in the documentation dealing with the Drax Group restructuring and set out in the EGM circular for the meeting held on 30 April 2004, a new annual bonus plan was established during the year.

The principal objective of the annual bonus plan is to incentivise employees to deliver and exceed Drax Power's annual operating plan targets. With a clear bonus opportunity and a bonus award process, which links actual awards firmly to results, the Company intends to encourage all employees to take ownership of the results and to share in the Company's success.

Performance targets for the annual bonus plan are determined by the remuneration committee and incorporate a mixture of financial, trading, plant, safety, environmental and development objectives. The committee assesses achievements against objectives for all executive directors and senior managers.

The current bonus range for executive directors is from zero to 60% of annual salary with 40% of basic salary representing an on-target performance level.

Bonus payments in respect of 2004 can be found in the directors' emoluments table at the end of this report.

Long Term Incentive Plan ("LTIP")
A new LTIP was approved by shareholders at the EGM on 30 April 2004 and subsequently implemented.

The objective of the LTIP is to incentivise employees to create sustained value for the group's debt and shareholders by:

- Repaying the group's debt (including debt repayment through a shareholder approved re-financing at par); and
- Increasing the value of the group's equity.

To support these objectives, the LTIP pool is funded by:

- Cash up to a total of £5.1m, representing 0.85% of any repayment or re-financing at par of A2, A3 and estimated residual B debt; and
- A total of 4,323,600 newly converted non-voting ordinary shares[1], representing 5% of the existing equity before such an issue.

The group's executive directors, senior managers and team leaders participate directly in the LTIP. In addition, a provision has been made for an all-employee distribution in order to encourage all staff to take ownership of the results by sharing in the success of the group. Approximately one-third of the total LTIP pool has been provisionally allocated for such an all-employee distribution.

On 17 May 2004, as envisaged in the EGM circular, an initial award of shares and units over the value held in the LTIP pool was made to those executive directors, senior managers and team leaders who participated in the restructuring in recognition of their contribution to the development of the group's business. The awards made to executive directors are listed in the directors' interests in the LTIP table at the end of this report.

The initial awards made on 17 May 2004 comprised two elements:

- Shares representing one-quarter of the total number of shares available to the LTIP (1,080,900). Executive directors, senior managers and team leaders who received such an initial award were invited to purchase a specified number of shares at 13.65 pence per share; a total of 549,931 shares were purchased. 49% of the shares available for initial awards were purchased by an employee benefit trust. The shares held in trust may subsequently be awarded to any member of staff, including directors; and
- Units representing a proportion of the LTIP pool. The number of units awarded to any participant in the LTIP represent both a proportion of the remaining shares in the LTIP pool (3,242,700) and, in consequence of any repayment of the A2, A3 and residual B debt, any cash paid into the LTIP (up to £5.1m). 49% of the units available for initial awards are held in trust and may subsequently be awarded to any member of staff, including directors.

It is anticipated that further performance-based awards of units will be made in subsequent years. Any such awards will have the effect of maintaining, increasing or decreasing the interest of any participant in the value held in the LTIP pool. Consequently, the percentage interest in the LTIP pool shown in the directors' interests in the LTIP table is purely indicative and does not represent a definitive interest in the LTIP pool.

Pension Arrangements
Executive directors are eligible to participate in the group's pension arrangements, alongside all group employees.

Stakeholder Pension Scheme
Executive directors and employees joining the group since 1 January 2002, who have not remained in continuous membership of the industry-wide Electricity Supply Pension Scheme since 31 March 1988, are offered the chance to join the group's Stakeholder (money purchase) Pension Scheme.

[1] *At the EGM on 30 April 2004, shareholders resolved to amend the authorised share capital of the Company by the conversion of 7,782,480 ordinary shares into 7,782,480 non-voting ordinary shares each with a nominal or par value of 0.001 pence.*

The group contributes up to 20% of each executive director's salary to the group's Stakeholder Pension Scheme or an approved personal pension plan established by the director. Alternatively, an executive director may elect to take cash in lieu of pension contribution.

The Stakeholder Pension Plan fund standing to a member's credit on retirement is used to purchase an annuity with the option for some of the fund to be taken as a lump sum, subject to Inland Revenue limits. In the event of death before retirement, the Scheme provides a lump sum benefit of four times the member's salary and an annual spouse's pension of 28% of the member's salary. Substantial protection is also offered in the event of serious ill health.

Final Salary Pension Scheme

All employees who were in post prior to 1 January 2002 or who join the group after that date, having been in continuous membership of the Electricity Supply Pension Scheme ("ESPS") since 31 March 1988, are offered the chance to join the Drax Power Group of the Electricity Supply Pension Scheme ("DPG ESPS").

The DPG ESPS provides defined benefits based on members' final salaries. Final salary is usually a member's salary in the last year of service before retirement, subject to appropriate Inland Revenue tax limits.

The ESPS is contributory with members normally paying 6% of their salaries and the employer paying twice the members' contributions. Members retiring with 40 years' service at normal retiring age are entitled to an annual pension of one-half of final salary and a lump sum of one-and-a-half times final salary. Normal retiring age for executive directors and employees in the electricity supply industry on 31 March 1988, and who have remained in service continuously since then, is 60 and for those joining after that date it is 63. The pension and lump sum benefits of males with a normal retiring age of 60 who retire before age 63 are subject to a reduction in relation to their service before 17 May 1990 when the Scheme equalised normal retirement ages.

In the event of death before retirement, a lump sum equal to four times final salary is payable together with an annual spouse's pension of 56% of the member's prospective pension at normal retiring age, based on final salary at the time of death. There is a guarantee that members' pensions will be paid for five years on normal retirement. Any balance of pension unpaid as a result of death during the guarantee period is due as a lump sum. The annual spouse's pension payable on death in retirement is equal to 56% of the member's pension at that time. In the event of death after leaving service but prior to commencement of pension, a lump sum equal to five times the current value of a member's preserved pension is due with an annual spouse's pension of 56% of the current value of the member's preserved pension. In all instances of death there is provision for the payment of children's pensions at least until age 18. Substantial protection is also offered in the event of serious ill health.

Increases, in line with increases in the Retail Prices Index, are applied annually to all pensions in payment and preserved pensions and lump sums. The group has the power to limit pension increases to 5% per annum if the Retail Prices Index rises by more than that amount in any one year.

There are no executive directors currently participating in the DPG ESPS.

Details of pension payments to directors are listed in the directors' emoluments table at the end of this report.

Restructuring Bonuses

In January 2004 and in accordance with their service contracts entered into August 2003 when they were invited to join the Company to lead the restructuring, Gordon Horsfield and Gerald Wingrove were each paid £100,000 in recognition of the timely completion of the Company's restructuring on 22 December 2003. These terms had previously been agreed in 2003 by the Company's creditors.

In May 2004, in accordance with resolutions put before shareholders and passed at the EGM on 30 April 2004, Gordon Horsfield and Gerald Wingrove were each made an additional payment of £400,000 as a bonus in respect of the successful restructuring and in recognition that the scope of their roles, shortly following their appointment, had materially expanded following the withdrawal of all the AES directors. With the approval of shareholders, given at the EGM, each director elected to re-invest the net proceeds (£236,000) of this restructuring bonus in the Company through the purchase of 1,729,440 each of the newly converted non-voting ordinary shares, at a price of 13.65 pence per share.

Service Contracts

All executive directors have rolling service contracts. These contracts can be terminated by the Company providing 12 months' notice and by the director giving six months' notice. The contract for Gordon Horsfield provides for six months' notice to be given by the Company.

The Company reserves the right to give the executive director pay in lieu of any notice of termination.

External Appointments

The Company recognises that executive directors may be invited to become non-executive directors of other companies, and that such appointments can broaden their knowledge and experience to the benefit of the Company. In such cases, the individual director retains the fees. Gordon Horsfield is a director of Molasses House Management Company Limited, but does not take a fee for his services as a director to this company.

remuneration report continued

Directors' Emoluments

	Current Annual Salary/Fee (£'000)	Year to 31 December 2004 Salary/ Fee Paid (£'000)	Benefits (£'000)	Annual Bonus Award (£'000)	Pension Payment (£'000)	Cash in Lieu of Pension Payment (£'000)	Restructuring Bonus (£'000)	Total (£'000)
Executive Director								
Gordon Horsfield[1,2]	295	208	18	86	-	51	500	863
Gerald Wingrove[1,2,3]	N/A	242	21	53	26	30	500	870
Peter Emery[4]	175	85	14	38	12	6	-	159
Gordon Boyd[5]	190	-	-	-	-	-	-	-
Non-Executive Director								
Lord Taylor of Blackburn[6]	N/A	23	-	-	-	-	-	23
Mike Grasby	51	52	-	-	-	-	-	52
Tim Barker[7]	46	28	-	-	-	-	-	28

Notes:

1. *The annual salaries of Gordon Horsfield and Gerald Wingrove were reviewed effective from 1 July 2004.*
2. *Of the total restructuring bonuses paid to Gordon Horsfield and Gerald Wingrove in 2004, £800,000 (£400,000 each) was expensed in the year ended 2003 financial statements and, therefore, will not be disclosed as remuneration in the 2004 financial statements.*
3. *Gerald Wingrove resigned on 19 April 2005. For the period 1 July 2004 to 19 April 2005, his annual salary was £295,000.*
4. *Peter Emery was appointed to the Board as Production Director on 1 June 2004.*
5. *Gordon Boyd was appointed to the Board as Finance Director on 10 January 2005.*
6. *Lord Taylor of Blackburn resigned from the Board on 30 June 2004. After this date, Lord Taylor was paid £23,000 for consultancy services in addition to that shown above.*
7. *Tim Barker was appointed to the Board on 30 June 2004.*

Directors' Interests in Long Term Incentive Plan

The table gives the awards made to the directors in May 2004 under the Long Term Incentive Plan.

Director	Number of Shares Purchased	Price Paid for Shares (£)	Units Awarded	% of LTIP Pool represented by Units at 31 December 2004
Gordon Horsfield[1]	116,404	15,889.15	27	10.8
Gerald Wingrove[2]	78,992	10,782.41	18	7.2

Notes:

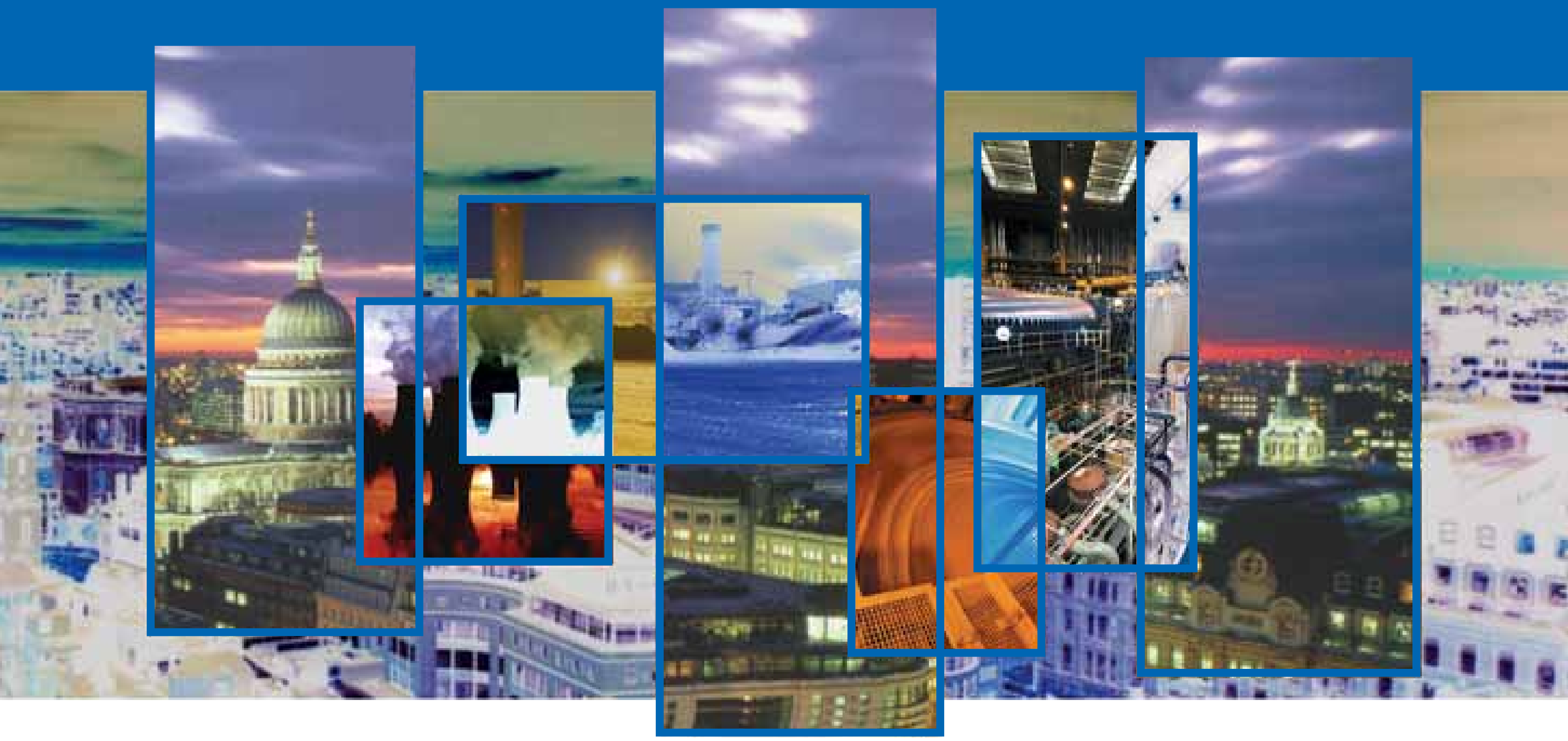
1. *Including the 1,729,440 shares purchased with the net proceeds of the restructuring bonus in May 2004, Gordon Horsfield purchased a total of 1,845,844 shares in the year.*
2. *Including the 1,729,440 shares purchased with the net proceeds of the restructuring bonus in May 2004, Gerald Wingrove purchased a total of 1,808,432 shares in the year.*

By order of the Board

Gordon Horsfield
Chairman of the Remuneration Committee

20 April 2005

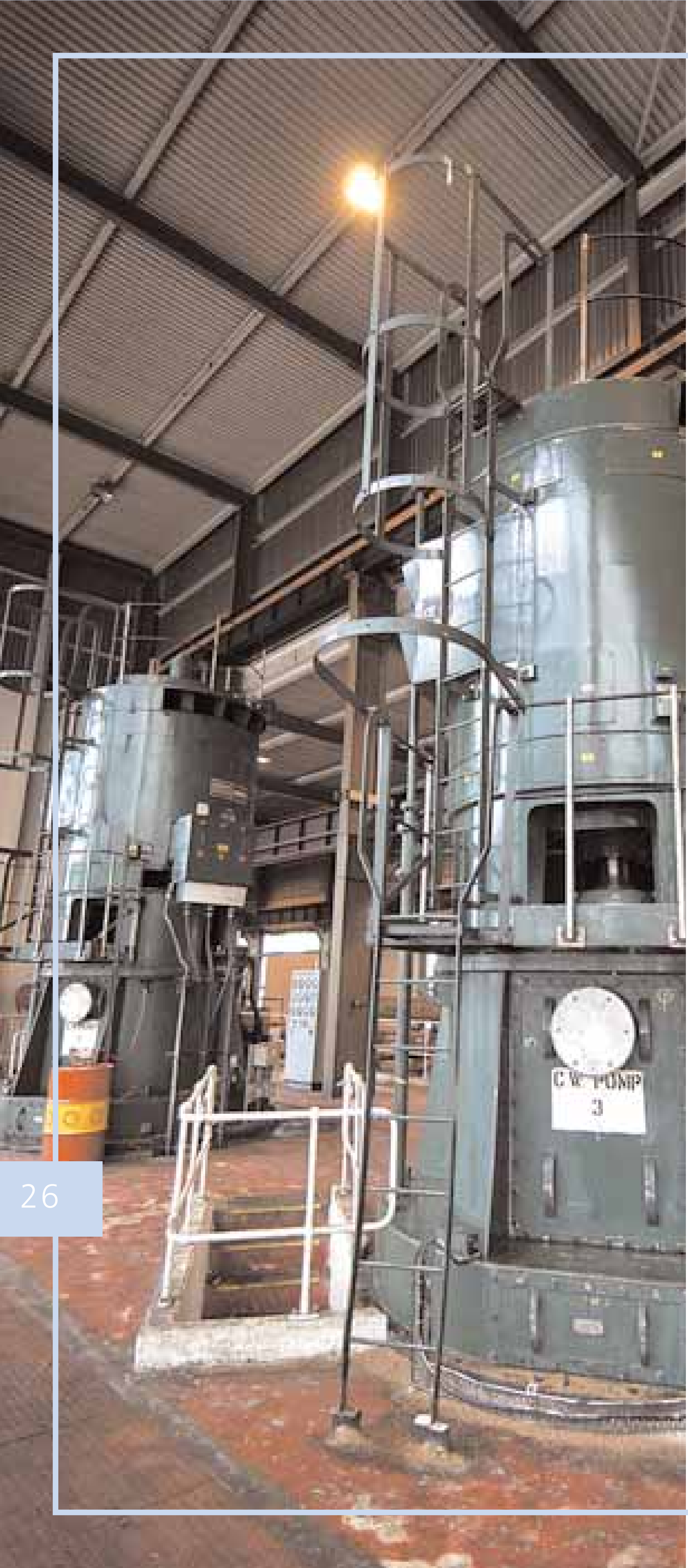
the power to provide



financial statements
for drax holdings limited

30 December 2004

Drax
Holdings Limited



contents

officers & professional advisers

DIRECTORS
Gordon Horsfield (Chairman)
Gordon Boyd (Finance Director)
Peter Emery (Production Director)
Mike Grasby (Non-Executive Director)
Timothy Barker (Non-Executive Director)

COMPANY SECRETARY
Peter Rothwell

REGISTERED OFFICE
Citco Trustees (Cayman) Limited
Corporate Centre
PO Box 31106SMB
West Bay Road
Grand Cayman
Cayman Islands
British West Indies

AUDITORS
Deloitte & Touche LLP
Chartered Accountants
1 City Square
Leeds LS1 2AL

LEGAL ADVISER
Norton Rose
Kempson House
Camomile Street
London EC3A 7AN

directors' report

The directors present their report and the audited financial statements for the period ended 30 December 2004.

Purpose and Nature of Accounts
The Company is incorporated and registered in the Cayman Islands and has no obligation to file accounts in the Cayman Islands. These accounts are presented under UK generally accepted accounting principles ("UK GAAP") for the Company and its subsidiary undertakings in order to meet the requirements of the Luxembourg Stock Exchange and the InPower 2 Facility Agreement dated 22 December 2003, and they are not intended to follow the requirements of the UK Companies Act 1985 for UK statutory accounts.

Activities
The principal activity of the Company is that of a holding company. The principal activity of the group is the generation and sale of electricity at the Drax Power station near Selby, North Yorkshire.

Review of Developments and Future Prospects
The Company adopted a new accounting reference date of 30 December and its accounts for 2004 have been prepared and audited on this basis.

An outline of the group's business, the activities during the period and possible future developments are contained in the Operating and Financial Review.

Results and Dividends
The group's results for the period ended 30 December 2004 showed a loss after tax of £84,366,000 (2003: £319,991,000). No dividends have been paid in the period (2003: £Nil).

Directors and their Interests
The directors of the Company who served during the period are shown below:

Gordon Horsfield
Gerald Wingrove
Peter Emery (appointed 1 June 2004)
Lord Taylor of Blackburn (resigned 30 June 2004)
Mike Grasby
Timothy Barker (appointed 30 June 2004)

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

Gerald Wingrove resigned as a director on 19 April 2005.

None of the directors had any disclosable interest, as defined by the UK Companies Act 1985, in the shares of the Company during the financial period. The directors' interests in Drax Group Limited, the ultimate parent company are shown below. The directors' interests in other group companies are disclosed in the financial statements of the respective entity.

The directors' interests in Drax Group Limited were as follows:

	Non-voting Ordinary Shares of 0.001p	
	At 30 December 2004	**At 1 January 2004 or Date of Appointment**
Gordon Horsfield	1,845,844	-
Gerald Wingrove	1,808,432	-
Peter Emery	-	-
Mike Grasby	-	-
Timothy Barker	-	-

A new Long Term Incentive Plan ("LTIP") was implemented in 2004. The group's executive directors, senior managers and team leaders participate directly in the LTIP. On 17 May 2004, an initial award of shares and units over the value held in the LTIP pool was made to those executive directors who participated in the restructuring in recognition of their contribution to the development of the group's business. The shares issued to the executive directors together with those purchased with the net proceeds of the restructuring bonuses are detailed above.

Employee Involvement and Disabled Persons
The group maintains established channels for communications and consultations with employees, keeping them informed of matters affecting them as employees and on various factors affecting the performance of the group. This is achieved through formal and informal meetings and through a monthly newsletter.

It is the group's policy to give full consideration to suitable applications for employment by disabled persons. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Auditors
It is the intention of the directors to re-appoint Deloitte & Touche LLP as the Company's auditors.

Approved by the Board of directors and signed on behalf of the Board

Peter Rothwell

Peter Rothwell
Company Secretary

20 April 2005

statement of directors' responsibilities

The directors are required to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the Company and group at the end of the period and of the profit or loss of the group for the period 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; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company and group 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 group, and enable them to ensure that the financial statements comply with UK GAAP. The directors are also responsible for safeguarding the assets of the Company and group, for the system of internal control and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

independent auditors' report

We have audited the consolidated financial statements of Drax Holdings Limited for the period ended 30 December 2004 which comprise the consolidated profit and loss account, the consolidated balance sheet, the consolidated statement of total recognised gains and losses, and the related notes 1 to 25. These financial statements have been prepared under the accounting policies set out therein. They have not been prepared for the purposes of section 227 of the UK Companies Act 1985 and are therefore not statutory accounts.

This report is made solely to the directors of the company in accordance with our engagement letter dated 25 January 2005. Our audit work has been undertaken so that we might state to the company's directors those matters we are required to state to them in this 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 for our 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 accounting principles generally accepted in the United Kingdom. Our responsibility is to audit the financial statements in accordance with auditing standards generally accepted in the United Kingdom.

We report to you our opinion as to whether the financial statements give a true and fair view. We also report if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records or if we have not received all the information and explanations we require for our audit.

We read the directors' report for the above period and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

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 circumstances of the group, 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 affairs of the group as at 30 December 2004 and of the loss of the group for the period then ended.

Deloitte & Touche LLP

Deloitte & Touche LLP
Chartered Accountants
Leeds

20 April 2005

consolidated profit and loss account period ended 30 december 2004

		Note	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
TURNOVER		2	546,989	471,149
Cost of sales			(308,694)	(283,702)
GROSS PROFIT			238,295	187,447
Administrative expenses	- normal		(182,756)	(165,230)
	- exceptional	4	(814)	(105,231)
	- total		(183,570)	(270,461)
Other operating income		5	2,500	-
OPERATING PROFIT/(LOSS)		6	57,225	(83,014)
Interest receivable and similar income	- normal	7	4,591	5,808
	- exceptional	7	-	34,654
	- total		4,591	40,462
Interest payable and similar charges	- normal	8	(172,730)	(180,597)
	- exceptional	8	-	(101,248)
	- total		(172,730)	(281,845)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION			(110,914)	(324,397)
Tax on loss on ordinary activities		9	26,548	4,406
RETAINED LOSS FOR THE FINANCIAL PERIOD TRANSFERRED FROM RESERVES		21,22	(84,366)	(319,991)

The results above relate to the continuing operations of the group.

CONSOLIDATED STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

There are no recognised gains and losses for the current or preceding financial period other than as stated in the profit and loss account. Therefore, no statement of total recognised gains and losses has been presented.

consolidated balance sheet

as at 30 december 2004

	Note	30 December 2004 £'000	31 December 2003 £'000
FIXED ASSETS			
Tangible assets	10	1,041,087	1,060,235
CURRENT ASSETS			
Stocks	11	46,397	35,396
Debtors	12	70,189	59,875
Cash at bank and in hand	14	73,960	88,198
		190,546	183,469
CREDITORS: amounts falling due within one year	15	(274,102)	(62,209)
NET CURRENT (LIABILITIES)/ASSETS		(83,556)	121,260
TOTAL ASSETS LESS CURRENT LIABILITIES		957,531	1,181,495
CREDITORS: amounts falling due after more than one year	16	(1,808,019)	(1,925,860)
PROVISIONS FOR LIABILITIES AND CHARGES	19	(110)	(21,867)
NET LIABILITIES		(850,598)	(766,232)
CAPITAL AND RESERVES			
Called up share capital	20	20,051	20,051
Capital reserve	21	104,500	104,500
Profit and loss account	21	(975,149)	(890,783)
TOTAL EQUITY SHAREHOLDERS' DEFICIT	22	(850,598)	(766,232)

These financial statements were approved by the Board of directors on 20 April 2005.

Signed on behalf of the Board of directors

Gordon Horsfield
Chairman

Gordon Boyd
Finance Director

notes to the accounts

period ended 30 december 2004

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Accounting Policies

The financial statements are prepared 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 period and preceding year.

Accounting Convention

The financial statements are prepared under the historical cost convention.

Basis of Consolidation

The group consolidates the accounts of the Company and all its subsidiary undertakings up to 30 December annually. The Company has changed its accounting reference date from 31 December to 30 December and as a result the financial statements reflect 365 days ended 30 December 2004 (2004 being a leap year), and the comparatives reflect the 365 days ended 31 December 2003.

Cash Flow Statement

The cash flows of the group are included in the consolidated group cash flow statement of Drax Group Limited, whose accounts are publicly available. Accordingly, the Company has taken advantage of the exemption under FRS 1 not to publish a cash flow statement.

Tangible Fixed Assets

Tangible fixed assets are stated at cost less accumulated depreciation. Freehold land and assets in the course of construction are not depreciated. Depreciation is provided on cost in equal annual instalments over the estimated useful lives of the assets. The estimated useful lives are:

Freehold buildings, plant and machinery	30-40 years
Plant spares	30-40 years
Fixtures and fittings	3-5 years

Stocks

Fuel and consumables are stated at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving stocks. Net realisable value is based upon estimated selling price less all further costs to completion and all relevant marketing, selling and distribution costs.

The group is able to claim Renewables Obligation Certificates ("ROCs") from Ofgem as a result of burning renewable fuels. A market exists for sale of ROCs and the Company recognises income in the profit and loss account at the point where there is a binding agreement to sell. The attributable incremental cost of generating ROCs above that of burning coal is recognised within closing stock in respect of ROCs earned but not yet sold. The stock value is stated at the lower of cost and the net realisable value.

Taxation

Current tax, including UK corporation tax and foreign 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.

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; and

- 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, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Leased Assets

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Pension Costs

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employee services. The difference, if any, between the charge to the profit and loss account and the contribution paid to the scheme is shown as an asset or liability in the balance sheet.

The transitional disclosures of FRS 17 Retirement Benefits are given in Note 23.

Revenue Recognition
Revenues from the sale of electricity are recorded based upon output delivered at rates specified under contract terms or prevailing market rates as applicable, net of Value Added Tax.

Revenues from sales of ROCs are recorded at the invoiced value, net of Value Added Tax.

Derivatives
Investments or financial derivative instruments accounted for as hedges are structured so as to reduce the market risk associated with the underlying transaction being hedged and are designated as hedges at the inception of the contract. Gains and losses on hedges of existing assets or liabilities are included in the carrying amounts of those assets or liabilities and are ultimately recognised in the profit and loss account as part of those carrying amounts. Gains and losses on qualifying hedges of firm commitments or anticipated transactions are also deferred and are recognised in the profit and loss account or as adjustments of carrying amounts when the hedged transaction occurs. Commercial activities denominated in foreign currencies are recorded in sterling at actual exchange rates as at the date of the transaction or at the contracted rate if the transaction is covered by a forward foreign exchange contract or other hedging instrument. Monetary assets and liabilities denominated in foreign currencies at the period end are reported at the rates of exchange prevailing at the period end or, if hedged, at the appropriated hedged rate.

2. TURNOVER

Turnover comprises primarily sales to the electricity wholesale market in England and Wales of electricity generated by the group.

3. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

Average number of persons employed:

	Period ended 30 December 2004 No.	Year ended 31 December 2003 No.
Operations	475	444
Business services	65	59
	540	503

Staff costs:

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Wages and salaries	21,359	18,019
Social security costs	1,786	1,461
Pension costs	3,268	1,386
	26,413	20,866

Directors' remuneration consists of:

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Remuneration	1,152	1,563
Pension contribution	38	5
	1,190	1,568

Following Lord Taylor's resignation from the Board on 30 June 2004, he was paid £23,000 for consultancy services in addition to amounts included above.

Included in the above amounts are the following in respect of the highest paid director:

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Remuneration	444	688
Pension contribution	26	-
	470	688

Two directors accrued benefits under personal defined contribution schemes within the period (2003: One) and no directors accrue benefits under a company defined benefit scheme (2003: Nil).

The remuneration of the directors in respect of their services to the entire Drax group is borne by Drax Power Limited and is disclosed above.

4. ADMINISTRATIVE EXPENSES - EXCEPTIONAL

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Provision against ESOP loan receivable	3,457	-
Write back of accruals from earlier periods	(2,643)	-
Restructuring costs	-	44,560
Write off of inter-company debt with AES group companies	-	60,671
	814	105,231

Period ended 30 December 2004
The provision against the Employee Share Ownership Plan ("ESOP") loan receivable is in relation to a loan (plus accrued interest) granted to the AES Drax Power ESOP in 2001, which the directors consider unlikely to be recovered.

The write back of accruals relates to operation and maintenance accruals made in previous years which are no longer payable.

Year ended 31 December 2003
In the third quarter of 2003, due to the withdrawal of support by The AES Corporation, the Company wrote down amounts claimed as due from other AES group companies, amounting to £60.7 million, consisting of a write off of a loan balance of £68.5 million and a write back of a balance claimed as owed of £7.8 million, which the company disputes.

All costs in relation to work carried out on the restructuring, including legal advisors' fees, financial advisors' fees and all other costs incurred directly relating to the restructuring were expensed in Drax Holdings Limited.

5. OTHER OPERATING INCOME

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Business interruption insurance proceeds	2,500	-

The business interruption insurance claim relates to amounts receivable under the terms of insurance for incidences where the Company has lost profit as a result of the plant being out of action due to unforeseen operational reasons.

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after charging:

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Depreciation of owned assets	32,275	32,066
Auditors' remuneration		
- audit services	227	142
- non-audit services	90	916

7. INTEREST RECEIVABLE AND SIMILAR INCOME

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Normal		
Bank interest receivable and similar income	4,591	5,808
Exceptional		
Foreign currency gain on dollar senior bonds	-	25,464
Gain on extinguishment of debt	-	9,190
	-	34,654
	4,591	40,462

Exceptional costs relating to the financial restructuring - year ended 31 December 2003
Under the terms of the restructuring effective 22 December 2003, the senior secured bonds of $302.4 million were firstly revalued at the effective exchange rate and then cancelled. This resulted in a foreign currency gain of £25.5 million.

The tax effect of these exceptional items is expected to be broadly consistent with the treatment of other interest receivable.

8. INTEREST PAYABLE AND SIMILAR CHARGES

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Normal		
Bank interest and other loans	172,730	176,616
Amortisation of deferred financing costs	-	3,981
	172,730	180,597
Exceptional		
Write off of deferred financing costs	-	32,338
Termination of swaps	-	68,910
	-	101,248
	172,730	281,845

Exceptional costs relating to the financial restructuring - year ended 31 December 2003

Due to the successful financial restructuring, the Company wrote off all balances of deferred financing costs relating to the initial acquisition of the power station by AES in 1999, which amounted to £32.3 million.

Under the terms of the restructuring, the foreign currency hedging swaps and the interest rate hedging swaps were terminated.

The tax effect of these exceptional items is expected to be broadly consistent with the treatment of other interest payable.

9. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of credit in the period

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
United Kingdom corporation tax at 30%		
- current period	-	-
- prior year	(2,255)	(9,395)
Total current tax	(2,255)	(9,395)
Deferred tax - timing differences, origination and reversal	(24,293)	4,989
Total tax on loss on ordinary activities	(26,548)	(4,406)

b) Factors affecting tax credit

The tax assessed for the period is different from that resulting from applying the standard rate of corporation tax in the UK (30%) (2003: 30%). The differences are explained below:

	Period ended 30 December 2004 £'000	Year ended 31 December 2003 £'000
Loss on ordinary activities before tax	(110,914)	(324,397)
Tax on profit on ordinary activities at 30% (2003: 30%)	(33,274)	(97,319)
Effects of:		
Expenses not deductible for tax purposes	12,204	114,690
Capital allowances in excess of depreciation	(4,380)	(4,989)
Tax losses not utilised	25,450	9,178
Movement in short term timing differences	-	(21,560)
Adjustment in respect of prior years	(2,255)	(9,395)
Current tax credit for the period	(2,255)	(9,395)

The tax charge in future periods may be affected by the group having, at the period end, estimated taxable losses of £84.8 million available for carry forward and utilisation in future periods.

10. TANGIBLE FIXED ASSETS

	Freehold Land and Buildings £'000	Plant, Machinery, Fixtures and Fittings £'000	Plant Spares £'000	Total £'000
Cost				
At 1 January 2004	132,181	1,090,078	24,038	1,246,297
Additions	496	11,368	1,823	13,687
Disposals	-	(254)	-	(254)
Issues	-	-	(560)	(560)
At 30 December 2004	132,677	1,101,192	25,301	1,259,170
Accumulated Depreciation				
At 1 January 2004	16,153	167,811	2,098	186,062
Charge for the period	3,203	28,484	588	32,275
Disposals	-	(254)	-	(254)
At 30 December 2004	19,356	196,041	2,686	218,083
Net Book Value				
At 30 December 2004	113,321	905,151	22,615	1,041,087
At 31 December 2003	116,028	922,267	21,940	1,060,235

Freehold land amounting to £1,060,000 (2003: £1,060,000) has not been depreciated.

As at 30 December 2004, the group had commitments totalling £333,521 which were contracted for but not provided in the financial statements (2003: £Nil).

11. STOCKS

	2004 £'000	2003 £'000
Raw materials and consumables	42,628	35,396
Renewables obligation certificates	3,769	-
	46,397	35,396

The book value of stock is not materially different from its replacement cost.

12. DEBTORS

Amounts due within one year:

	2004 £'000	2003 £'000
Trade debtors	61,126	51,517
Prepayments and other debtors	6,527	8,358
Deferred taxation (note 13)	2,536	-
	70,189	59,875

13. DEFERRED TAXATION

The deferred taxation included in the balance sheet is as follows:

	2004 £'000	2003 £'000
Included in provisions for liabilities and charges (note 19)	-	(21,757)
Included in debtors (note 12)	2,536	-

The movement in the deferred taxation account during the period was:

	2004 £'000	2003 £'000
Deferred tax liability at 1 January 2004 (note 19)	(21,757)	(16,768)
Profit and loss account movement in period	24,293	(4,989)
Deferred tax asset/ (liability) at 30 December 2004	2,536	(21,757)

The balance in the deferred taxation account consists of the tax effect of timing differences in respect of:

	2004 £'000	2003 £'000
Excess of taxation allowances over depreciation on fixed assets	(26,137)	(21,757)
Tax losses available and offset	28,673	-
	2,536	(21,757)

The deferred tax asset has been recognised this period on the basis of taxable losses available for carry forward at 30 December 2004, and on the basis of the group's expectation of generating future taxable profits is more likely than not to be equal to or be in excess of the losses available for offset.

14. CASH

Included within the total cash balance are restricted cash deposits amounting to £29.1 million (2003: £55.1 million), which can only be used for the purpose of debt service.

15. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2004 £'000	2003 £'000
Trade creditors	5,766	3,597
Corporation tax	2,504	4,643
Other creditors and accruals	52,835	53,969
Borrowings (note 17)	212,997	-
	274,102	62,209

Included within other creditors is VAT payable of £8.9 million (2003: £7.4 million).

16. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	2004 £'000	2003 £'000
Borrowings (note 17)	1,807,213	1,925,182
Retentions	806	678
	1,808,019	1,925,860

All retentions are payable within one to two years.

17. BORROWINGS

The borrowings at 30 December 2004 consist of the Original Bonds, the Further Eurobonds and the B Facility Eurobonds (together the "Guaranteed Secured Bonds"). The Original Bonds were issued on 30 November 1999 and these remain in issue at 30 December 2004. The Further Eurobonds and B Facility Eurobonds were issued under the financial restructuring on 22 December 2003.

The Guaranteed Secured Bonds are issued by the Company and guaranteed on an unlimited, unconditional and irrevocable basis by each of Drax Power Limited, Drax Ouse 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 and certain related swaps, finance documents and guarantees.

Repayment of all of the Guaranteed Secured Bonds is further secured by direct agreements from certain of the major project parties and other security arrangements.

Of the Original Bonds an amount of £1.3 billion bears a fixed rate of interest of 8.86% and interest is payable semi-annually over 15 years, the remaining £425 million of Original Bonds is interest free. The Further Eurobonds bear floating rates of interest of LIBOR plus 5% per annum and interest is payable semi-annually over 17 years. The B Facility Eurobonds bear a floating rate of interest of LIBOR plus 2% per annum and interest will accrue over 22 years, only payable upon the earlier of the B Facility Eurobonds being listed on the Luxembourg Stock Exchange and 31 December 2005. Interest will accrue on unpaid B Facility Eurobond interest amounts at the same rate as on the B Facility Eurobond principal.

The Company has fixed minimum payment profiles for repayment of debt, these payment profiles are set out in the group restructuring documents. Repayments above these minimum repayments are subject to the cash available within the group for debt service. Cash available for debt service is calculated in accordance with the Calculation and Forecasting Agreement (CALFA) dated 22 December 2003.

On 30 March 2005, a first distribution of some £214 million in aggregate was received by the Company and Drax Power Limited from the administrators and supervisors of TXU Europe Group Plc and TXU Europe Energy Trading Limited pursuant to the company voluntary arrangements for those companies. At the time of approving the financial statements, the directors' expectations are that the group will receive further distributions totalling approximately £134 million by around April 2006, although this is not certain. All amounts are stated inclusive of VAT. Amounts received from the first distribution net of VAT and a £2.5 million payment to TXU Europe Limited have been paid to B Facility Eurobond holders. The group also holds funds in a B Facility Listing (Escrow) Account of £8.3 million which will be payable upon the successful listing of the B Facility Eurobond debt or 31 December 2005, whichever is the earlier, for the purpose of making interest payments.

Upon receipt of the TXU funds and successful listing of the B Facility Eurobond debt the directors, for the purposes of these financial statements, have estimated a repayment profile as detailed below. Although, the timing and quantum of further TXU distributions remains uncertain and cash may be available for distribution from TXU sooner, dependent upon when the supervisors of TXU Europe Group Plc and TXU Europe Energy Trading Limited have funds available for distribution to creditors pursuant to the company voluntary arrangements for those companies.

Analysis of minimum loan repayments (including unpaid interest) are:

	2004 £'000	2003 £'000
Within one year		
Original Bonds	-	-
B Facility Eurobonds	212,997	-
Further Eurobonds	-	-
	212,997	-
Within one to two years		
Original Bonds	-	-
B Facility Eurobonds	130,036	-
Further Eurobonds	-	-
	130,036	-
Within two to five years		
Original Bonds	85,000	-
B Facility Eurobonds	-	-
Further Eurobonds	-	-
	85,000	-
After five years		
Original Bonds	1,477,555	1,490,927
B Facility Eurobonds	28,150	347,783
Further Eurobonds	86,472	86,472
	1,592,177	1,925,182
	2,020,210	1,925,182

Borrowings are stated after deduction of prepaid coupons and inclusive of accruals for unpaid coupons as follows:

	Gross Borrowings £'000	Prepaid Coupons £'000	Unpaid Coupons & Accured Interest £'000	Net Borrowings £'000
As at 30 December 2004				
Original Bonds	1,725,000	(316,011)	153,566	1,562,555
B Facility Eurobonds	338,291	-	32,892	371,183
Further Eurobonds	86,472	-	-	86,472
	2,149,763	(316,011)	186,458	2,020,210
As at 31 December 2003				
Original Bonds	1,725,000	(329,900)	95,827	1,490,927
B Facility Eurobonds	338,291	-	9,492	347,783
Further Eurobonds	86,472	-	-	86,472
	2,149,763	(329,900)	105,319	1,925,182

18. DERIVATIVES AND OTHER FINANCIAL INSTRUMENTS

The group issues or holds financial instruments for two purposes.

- Financial instruments relating to the operations, financing and risks of the operating company, Drax Power Limited.
- Financial instruments relating to the financing and risks of the debt holding company, Drax Holdings Limited and the consolidated risks of the group.

The group finances its operations by a mix of retained profits, Original Bonds, B Facility Eurobonds and Further Eurobonds. The group's financial instruments comprise borrowings, cash and liquid resources, items that arise directly from its operations and derivative transactions. The main risks arising from the group's financial instruments are interest rate risk, currency risk and liquidity risk.

Interest Rate Risk
The group is partly financed by borrowings at both fixed and floating rates of interest.

The financial restructuring required the group to enter into hedges against interest rate fluctuations in an equal amount to the full value of certain senior secured indebtedness of £400 million by 31 March 2004. The interest amounts due with respect to the remaining principal are thus subject to fluctuations in the London interbank offered rate (LIBOR). As at 30 December 2004, the group had hedged £400 million of floating rate exposure and such hedging arrangements satisfy the requirements under the financial restructuring.

The Harich Swap was put in place as part of the previous structure, for the principal purpose of matching payment flows in the Company to ensure that no cash shortfall or surplus could arise. In part, the Harich Swap provided a balancing mechanism between the different amortisation profiles of Eurobond coupons and the bank loan, by way of a LIBOR based cash flow to match the floating rate interest payments on the bank loan.

The Harich Swap was amended under the 2003 financial restructuring to ensure that in relation to financing cash flows, the swap balances periodic cash flows and prevents a cash shortfall or surplus between Eurobond coupons and the restructured bank debt.

Currency Risk
Drax Power Limited purchases coal from international suppliers under contracts denominated in US dollars. During 2004 some limited hedging of the currency exposure was undertaken.

Liquidity Risk
The group requires access to sufficient liquidity to enable it to meet its obligations as they fall due and to provide adequately for contingencies.

For the company, Drax Holdings Limited, short-term liquidity is provided by cash balances, some of which are held in the debt service reserve accounts as required in the InPower 2 Facility Agreement with the senior banks. The cash balance on these debt service reserve accounts at 30 December 2004 totalled £29.1 million (2003: £55.1 million).

For the operating company, Drax Power Limited, short-term liquidity is provided by cash balances and by a letter of credit facility of £100 million which exists solely for trading purposes. As at 30 December 2004, £73.5 million had been committed (2003: £26.6 million).

The Generation Business

Hedging
Drax Power Limited enters into short and medium term forward sales contracts to hedge generation output.

Numerical Disclosures
The numerical disclosures below deal with financial assets and liabilities as defined in FRS 13 Derivatives and Other Financial Instruments: Disclosures. Certain financial assets and liabilities, such as investments in subsidiary companies, are excluded from the scope of these disclosures. As permitted by FRS 13, short-term debtors and creditors have been excluded from the disclosures.

Interest Rate Risk Profile of Financial Assets and Financial Liabilities

Financial Assets
The group's financial assets comprise deposits bearing interest at the rate agreed between the group and its banks.

The interest rate profile of the group's financial assets was:

	Total		**Floating Rate Financial Assets**	
Currency	**30 December 2004 £'000**	**31 December 2003 £'000**	**30 December 2004 £'000**	**31 December 2003 £'000**
Sterling	73,960	88,198	73,960	88,198

Financial Liabilities
The group's financial liabilities comprise both floating rate and fixed rate liabilities. The floating rate liabilities comprise Original Bonds of £900,000,000 (2003: £1,092,000,000), Further Eurobonds of £86,472,000 (2003: £86,472,000) and B Facility Eurobonds of £338,291,000 (2003: £338,291,000) that bear interest at rates based upon LIBOR for terms of up to six months.

The fixed rate liabilities comprise Original Bonds of £825,000,000 (2003: £633,000,000) that bear interest rates set under the terms of the bonds.

After taking account of the various currency and interest rate swaps entered into by the group, the interest rate profile of the group's gross financial liabilities was:

	Total		**Floating Rate Financial Liabilities**		**Fixed Rate Financial Liabilities**	
Currency	**30 December 2004 £'000**	**31 December 2003 £'000**	**30 December 2004 £'000**	**31 December 2003 £'000**	**30 December 2004 £'000**	**31 December 2003 £'000**
Sterling	2,149,763	2,149,763	1,324,763	1,516,763	825,000	633,000

	Weighted Average Interest Rate		**Fixed Rate Financial Liabilities Weighted Average Period for which Rate is Fixed**		**Weighted Average Period until Maturity**	
Currency	**30 December 2004 %**	**31 December 2003 %**	**30 December 2004 Years**	**31 December 2003 Years**	**30 December 2004 Years**	**31 December 2003 Years**
Sterling	2.457	1.428	10.5	11.5	10.5	11.5

Maturity of Financial Liabilities
The maturity profile of the group's financial liabilities was as follows:

	Gross Borrowings	
	30 December 2004 £'000	31 December 2003 £'000
In one year or less, or on demand	212,997	-
In more than one year but not more than two years	130,036	-
In more than two years but not more than five years	85,000	-
In more than five years	1,721,730	2,149,763
Total	2,149,763	2,149,763

Fair Value Disclosures
Set out below is a comparison of book values and fair values of the group's financial assets and liabilities.

	30 December 2004		31 December 2003	
	Book Value £'000	Fair Value £'000	Book Value £'000	Fair Value £'000
Financial assets				
Bank deposits	73,960	73,960	88,198	88,198
Primary financial instruments issued to finance the group's operations				
Net borrowings	2,020,210	1,842,999	1,925,182	1,045,391
Derivative financial instruments held to manage the interest rate and currency profile				
Interest rate swaps	-	(17,657)	-	(12,858)

The fair values of financial assets have been determined by reference to quoted market prices where available.

The fair value of the long term borrowings have been determined by reference to either a quoted market value, or, the fair values of the unquoted debt have been calculated by discounting the estimated cash flows for each instrument at the appropriate market discount rate, in effect at the balance sheet date.

The fair value of the interest swaps and sterling denominated bonds have been determined by reference to prices available from the markets on which these instruments or similar instruments are traded.

Gains and Losses on Financial Assets and Financial Liabilities Held or Issued for Trading
No gains or losses have been recognised which relate to trading in financial assets and financial liabilities.

Gains and Losses on Forward Contracts
The group enters into forward contracts to hedge against fluctuations in the selling price for electricity. It also uses interest rate swaps and currency swaps to manage its interest rate profile and currency risk.

Changes in the fair value of instruments used as hedges are not recognised in the financial statements until the hedged position matures. An analysis of unrecognised gains and losses is as follows:

	Gains £'000	Losses £'000	Total Net £'000
Unrecognised gains and losses on forward contracts at 1 January 2004	-	(12,858)	(12,858)
Gains and losses arising in previous years that were recognised in the period	-	-	-
Gains and losses arising before 1 January 2004 that were not recognised in the period	-	(12,858)	(12,858)
Gains and losses arising in the period that were not recognised in the period	-	(4,799)	(4,799)
Unrecognised gains and losses at 30 December 2004	-	(17,657)	(17,657)
Gains and losses expected to be recognised in the next financial year	-	-	-
Gains and losses expected to be recognised after the next financial year	-	(17,657)	(17,657)

19. PROVISIONS FOR LIABILITIES AND CHARGES

	At 1 January 2004 £'000	Current Period Charge £'000	At 30 December 2004 £'000
Deferred taxation (note 13)	21,757	(21,757)	-
Reinstatement provision	110	-	110
	21,867	(21,757)	110

20. CALLED UP SHARE CAPITAL

	2004 £'000	2003 £'000
Authorised		
1,000,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Called up, allotted and fully paid		
20,051,000 ordinary shares of £1 each	20,051	20,051

21. RESERVES

	Capital Reserve £'000	Profit and Loss Account £'000	Total £'000
At 1 January 2004	104,500	(890,783)	(786,283)
Retained loss for the financial period	-	(84,366)	(84,366)
At 30 December 2004	104,500	(975,149)	(870,649)

The capital reserve relates to amounts received by a subsidiary undertaking from the draw-down of letters of credit with Bank of America Securities. The letters of credit were issued in connection with the obligations of the Company and other Drax group obligors to maintain the balance on a debt service reserve account at a prescribed level. The letters of credit were issued by Bank of America Securities at the request of The AES Corporation, however, The AES Corporation confirmed in a letter to the lenders that it has no right of recourse either directly or indirectly in connection with the letters of credit against the group.

22. RECONCILIATION OF MOVEMENTS IN TOTAL EQUITY SHAREHOLDERS' DEFICIT

	2004 £'000	2003 £'000
Loss for the financial period	(84,366)	(319,991)
Capital contribution in the year	-	52,250
Net reduction in shareholders' funds	(84,366)	(267,741)
Opening shareholders' deficit	(766,232)	(498,491)
Closing shareholders' deficit	(850,598)	(766,232)

23. PENSION SCHEME FUNDING

Pension Schemes Operated
Within the UK the group principally operates an approved defined benefit scheme, on behalf of the Drax Power Group of the Electricity Supply Pension Scheme ("DPG ESPS"). This scheme was closed to new members as from 1 January 2002. The Company also operates a defined contribution scheme.

Regular Pension Costs - SSAP 24
Pension costs for the DPG ESPS in the period were £3.1 million (2003: £1.4 million), comprising a regular cost of £1.6 million (2003: £1.5 million) plus variations totalling £1.5 million (2003: £100,000). The variation of £1.5 million has arisen due to a valuation deficit of £20.4 million relating to the period 1 April 2004 to 30 December 2004. This variation is being spread as a percentage of payroll, over the future working lifetime of the active members of approximately 13 years. Of the pension charge of £3.1 million, £1.7 million of this provision is carried forward in the balance sheet at 30 December 2004 in creditors.

Payments in the year on behalf of employees to defined contribution schemes amounted £177,000.

The scheme actuary, an employee of Bacon & Woodrow, Actuaries and Consultants, assessed the DPG ESPS as at 31 December 2004 using the projected unit method and a market-based valuation approach to ascertain its cost to the group. The principal financial assumptions were that the rate of return would be 4.65% per annum higher than the rate of price inflation, that increases in past and future pensions would be in line with price inflation, and that future salary growth would exceed price inflation by 1.5% per annum, depending on salary levels at the valuation date.

At the date of the latest preliminary actuarial valuation dated 31 March 2004, the market value of the assets of the DPG ESPS was £44.0 million and the actuarial value of the assets was sufficient to cover 68.3% of the benefits that had accrued to members, after allowing for expected increases in future earnings. The next scheduled actuarial valuation of the DPG ESPS will be as at 31 March 2007. The Company has agreed an additional funding rate of 15.2% of salaries from 1 April 2005 to repair the deficit, in accordance with the actuary's recommendations. This will take the company's contribution rate to 28.5%.

FRS 17
In November 2000, the Accounting Standards Board issued FRS 17. Certain disclosures are required in the transition periods before full adoption of FRS 17. These further disclosures are included below.

The principal actuarial assumptions used as at 31 December 2004, 2003 and 2002 are shown below:

	2004	2003	2002
Rate of increase in salaries	4.4%	4.3%	3.8%
Rate of increase of pensions in payment and deferment	3.0%	2.9%	2.5%
Discount rate	5.3%	5.4%	5.4%
Inflation assumption	2.9%	2.8%	2.3%

The following contributions were made to the DPG ESPS:

	Period ended 30 December 2004 £m	Year ended 31 December 2003 £m
Company contributions	1.6	1.7
Member contributions	0.7	0.7

Analysis of amount charged to operating profit:

	Period ended 30 December 2004 £m	Year ended 31 December 2003 £m
Current service cost	2.5	2.0
Total operating cost	2.5	2.0

Analysis of amount charged to other finance costs:

	Period ended 30 December 2004 £m	Year ended 31 December 2003 £m
Expected return on pension plan assets	3.4	2.6
Less: interest on pension plan liabilities	(3.9)	(3.4)
Net finance cost	(0.5)	(0.8)

The assets and liabilities of the DPG ESPS are shown below:

	31 December 2004		31 December 2003		31 December 2002	
	Long Term Rate of Return Expected %	Value £m	Long Term Rate of Return Expected %	Value £m	Long Term Rate of Return Expected %	Value £m
Equities	7.6	48.4	7.8	42.8	7.5	29.5
Bonds	-	-	-	-	5.4	5.9
Others	4.0	0.1	4.3	0.2	4.5	0.4
Total market value of assets		48.5		43.0		35.8
Present value of scheme liabilities		(85.0)		(71.9)		(60.8)
Pension liability before deferred tax		(36.5)		(28.9)		(25.0)
Related deferred tax asset		11.0		8.7		7.5
Net pension liability		(25.5)		(20.2)		(17.5)

Analysis of movement in deficit during the year:

	Year ended 31 December 2004 £m	Year ended 31 December 2003 £m
Deficit in scheme brought forward	(28.9)	(25.0)
Current service cost	(2.5)	(2.0)
Contributions	1.6	1.7
Actuarial loss	(6.2)	(2.8)
Net finance cost	(0.6)	(0.8)
Deficit in scheme carried forward	(36.5)	(28.9)

Had the Company adopted FRS 17 early, the following amounts would have been recognised in the Statement of Total Recognised Gains and Losses ("STRGL"):

	Period ended 30 December 2004		Year ended 31 December 2003		Year ended 31 December 2002	
	£m	%	£m	%	£m	%
Actual return less expected return on pension scheme assets	1.4	3	4.3	10	(11.8)	(33)
Experience (losses)/gains arising on the scheme liabilities	(5.1)	(11)	0.6	1	0.1	-
Changes in assumptions underlying the present value of the scheme liabilities	(2.4)	-	(7.7)	-	(2.7)	-
Actuarial loss recognised in STRGL	(6.2)	(13)	(2.8)	(4)	(14.4)	(24)

notes to the accounts continued

period ended 30 december 2004

Had the Company adopted FRS 17 early, group profit and loss reserves would have been stated as follows:

	2004 £m	2003 £m	2002 £m
Profit and loss reserve in the financial statements as at period end	(975.1)	(890.6)	(570.8)
Deficit in relation to the DPG ESPS, net of related deferred tax asset	(25.5)	(20.2)	(17.5)
Profit and loss reserve as adjusted	(1,000.6)	(910.8)	(588.3)

24. ULTIMATE PARENT COMPANY

The immediate parent company is Drax Intermediate Holdings Limited, a company incorporated in the Cayman Islands.

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

25. RELATED PARTY TRANSACTIONS

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

Drax Power Station
PO Box 3
Selby
North Yorkshire
Y08 8PQ

www.draxpower.com