

AES UK POWER FINANCING LIMITED

Report and Financial Statements

Year ended 31 December 2001



AES UK POWER FINANCING LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

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AES UK POWER FINANCING LIMITED

REPORT AND FINANCIAL STATEMENTS 2001

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

John Turner
Neil Hopkins
Garry Levesley
Naveed Ismail

SECRETARIES

Neil Hopkins
Angela Padbury

REGISTERED OFFICE

Drax Power Station
Selby
North Yorkshire
YO8 8PQ

AUDITORS

Deloitte & Touche
Chartered Accountants
Leeds

AES UK POWER FINANCING LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2001.

ACTIVITIES

The principal activity of the company is that of an intermediate holding company.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The company acts as an intermediate parent company within a group of companies controlled by The AES Corporation. The company will continue to act as an intermediate parent company into the foreseeable future.

RESULTS AND DIVIDENDS

The company did not trade during the year, or the preceding period, and therefore made neither a profit nor a loss.

DIRECTORS AND THEIR INTERESTS

The directors of the company who served during the year are shown below.


John Turner	
Neil Hopkins	
Ian Foy	(appointed 21 May 2001, resigned 13 November 2002)
John Prickett	(appointed 21 May 2001, resigned 13 November 2002)
John Grimes	(appointed 21 May 2001, resigned 13 November 2002)
Naveed Ismail	(appointed 31 May 2002)
Michael Armstrong	(resigned 31 May 2002)
Sarah Flanigan	(resigned 31 May 2002)
Derek Paton	(resigned 31 May 2002)
Garry Levesley	(appointed 21 October 2002)

None of the directors had any interests, as defined by the Companies Act 1985, in the shares of the company or of any other group company as at 31 December 2001 or at any time during the year.

AUDITORS

Deloitte & Touche have expressed their willingness to continue in office. A resolution to reappoint them will be proposed at the next Annual General Meeting.

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



Angela Padbury

Secretary

20 December 2002

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial period which give a true and fair view of the state of affairs of the company as at the end of the financial period and of the profit or loss of the group for that period. In preparing those financial statements, they 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF AES UK
POWER FINANCING LIMITED**

We have audited the financial statements of AES UK Power Financing Limited for the year ended 31 December 2001 which comprise the balance sheet and the related notes 1 to 9. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

As described in the statement of directors' responsibilities, the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards. Our responsibility is to audit the financial statements in accordance with relevant United Kingdom legal and regulatory requirements and auditing standards.

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

We read the directors' report and the other information contained in the annual report for the above year as described in the contents section 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 company's circumstances, consistently applied and adequately disclosed.

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

Going Concern

In forming our opinion, we have considered the adequacy of the disclosures made in note 1, concerning the uncertainty as to the outcome of discussions with the Company's lenders regarding the financial restructuring of the project. In view of the significance of this uncertainty, we consider that it should be drawn to your attention, but our opinion is not qualified in this respect.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs as at 31 December 2001 and of the result of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche

Deloitte & Touche

Chartered Accountants and Registered Auditors

22 January 03

AES UK POWER FINANCING LIMITED

BALANCE SHEET 31 December 2001

	Note	2001 £'000	2000 £'000
FIXED ASSETS			
Investments	2	<u>1,000</u>	<u>1,000</u>
CURRENT ASSETS			
Debtors	3	<u>171,000</u>	<u>209,000</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		172,000	210,000
CREDITORS: amount falling due after more than one year	4	<u>(171,000)</u>	<u>(209,000)</u>
		<u>1,000</u>	<u>1,000</u>
CAPITAL AND RESERVES			
Called up share capital	6	<u>1,000</u>	<u>1,000</u>
EQUITY SHAREHOLDERS' FUNDS		<u>1,000</u>	<u>1,000</u>

These financial statements were approved by the Board of Directors on 20 December 2002.

Signed on behalf of the Board of Directors



Garry Levesley
Director

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation of financial statements

Following the termination of the Hedging Contract with TXU and the appointment of joint administrators for TXU Energy and TXU Europe on November 18 and 19, 2002 respectively, the company entered discussions with its senior lenders in order to address the potential defaults under the senior financing documents arising from the TXU situation.

In addition, certain of the forward looking debt service cover ratios at June 30, 2002, were below the threshold required to permit distributions. As a result, AES Drax Power was not permitted to make distributions to AES Drax Energy to permit interest due on the high yield notes to be paid on August 30, 2002. The AES Corporation, however, made a contribution to AES Drax Energy which together with amounts then held in the high yield note debt service reserve account was sufficient to make the payments then due. At the time the AES Corporation stated that there were no assurances that it would agree to make any similar payments in the future. Any improvement in the forward looking ratios would depend on a favourable change in the forward curve for electricity prices during the period from June 30 to December 31, 2002. Such improvements have not occurred and the ratios will be below 1.19:1 at December 30, 2002.

Moreover, there are insufficient funds remaining in the high yield note debt service reserve account to cover such payments. If AES Drax Energy is unable to pay the interest due on the notes on time at the end of February 2003, such failure would constitute an event of default under the notes although any enforcement rights would be subject to a 90-day grace period as well as the terms and conditions of certain intercreditor arrangements.

On December 13, 2002, AES Drax signed an agreement regarding certain standstill arrangements with the steering committee representing the bank lenders and an ad hoc committee formed by holders of the senior bonds. The purpose of the standstill is to provide AES Drax and the senior creditors with a period of stability during which discussions regarding consensual restructuring of AES Drax can take place. The standstill period will expire on May 31, 2003, unless extended. The bank lenders and the senior bondholders have agreed to waive certain events of default under the Eurobonds or the senior bonds, as applicable, not to accelerate payment of the obligations and would not seek to enforce security.

Under the Standstill Agreement, AES Drax's bank lenders and senior bondholders have agreed to certain amendments and waivers to their respective financing documents which permits AES Drax to have access to at least £30,000,000 of funds currently unavailable under the financing documentation. These funds, subject to certain consent rights of the steering committee of the bank lenders and the ad hoc committee of senior bondholders, are available to provide credit support to electricity counterparties and suppliers and for working capital needs.

Failure to effect a satisfactory restructuring of AES Drax could lead to an event of default under the senior financing documents and the withdrawal of support by the Company's lenders.

The Directors believe that the standstill agreement will facilitate an agreed restructuring of AES Drax. On this basis, the Directors consider it appropriate to prepare the financial statements on the going concern basis. The financial statements do not include any adjustments that would result from a withdrawal of support by the Company's lenders.

As a further consequence of the loss of the hedging contract the Directors are undertaking a full review of the carrying value of all assets. This may result in significant write offs in the financial statements for the year ending 31 December 2002.

Accounting Policies

The financial statements are prepared in accordance with applicable United Kingdom accounting standards. The particular accounting policies adopted are described below.

Accounting convention

The financial statements are prepared under the historical cost convention.

AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES (continued)

Consolidation

The company is exempt from the requirement to prepare and deliver consolidated financial statements.

These financial statements therefore present information about the company as an individual undertaking and not about the group.

Cash flow statement

The cash flows of the company are included in the consolidated group cash flow statement of AES UK Power Holdings Limited. Accordingly, the company has taken advantage of the exemption under Financial Reporting Standard No. 1 not to publish a cash flow statement.

Investments

Investments held as fixed assets are stated at cost less provision for any impairment in value.

2. INVESTMENTS HELD AS FIXED ASSETS

	Shares in group undertaking £'000
Cost	
At 1 January 2001 and 31 December 2001	1,000

On 29 November 1999 the company acquired the entire issued share capital of AES Drax Power Finance Holdings Limited at book value. No goodwill arose on this transaction. The consideration was paid in cash.

On 2 August 2000 the company transferred 1% of the share capital of AES Drax Power Finance Holdings Limited to AES UK Power Financing II Limited at book value for cash consideration.

On 2 August 2000 the company acquired the entire issued share capital of AES UK Power Financing II Limited at book value. No goodwill arose on this transaction. The consideration was paid in cash.

Details of the investment are below:

Name of company	Country of registration	Type of Shares	Proportion of voting rights held	Proportion of shares held	Nature of business
Subsidiary undertakings:					
<i>Directly owned</i>					
AES UK Power Financing II Limited	England & Wales	Ordinary	100%	100%	Non-trading holding company
AES Drax Power Finance Holdings Limited	England & Wales	Ordinary	99%	99%	Non-trading holding company

AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2001

3. DEBTORS

	2001 £'000	2000 £'000
Amount owed by subsidiary undertaking	171,000	209,000

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

	2001 £'000	2000 £'000
Amount owed to immediate parent	171,000	209,000

5. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £'000	2000 £'000
Issue of share capital	-	1,000
Net additions to shareholders' funds	-	1,000
Opening shareholders' funds	1,000	-
Closing shareholders' funds	1,000	1,000

6. CALLED UP SHARE CAPITAL

	2001 £'000	2000 £'000
Authorised		
1,000,000,000 ordinary shares of £1 each	1,000,000	1,000,000
Called up, allotted and fully paid		
1,000,001 ordinary shares of £1 each	1,000	1,000

7. ULTIMATE PARENT COMPANY

The immediate parent company is AES UK Power Holdings Limited, a company incorporated in Great Britain and registered in England and Wales. Copies of the group accounts of AES UK Power Holdings Limited can be obtained from Companies House, Maindy, Cardiff CF4 3UZ.

The ultimate parent company and controlling entity is The AES Corporation, a company incorporated in the State of Delaware, USA. Copies of the parent company's financial statements can be obtained from the Securities and Exchange Commission, 450 5th Street NW, Washington DC 20549, USA.

8. RELATED PARTY TRANSACTIONS

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

NOTES TO THE ACCOUNTS

Year ended 31 December 2001

9. POST BALANCE SHEET EVENT

On 14 October, 2002 TXU Corp withdrew financial support for its subsidiary TXU Europe. As a consequence of this, TXU Europe Energy Trading Limited (TXU) was granted an administration order on November 19, 2002. As a result of the administration order, we expect to make provisions of £165 million in the financial statements for the year ended 31 December, 2002, covering the amounts owed by TXU in respect of the Hedging Contract with AES Drax and the termination of that contract. Following the termination of the Hedging Contract, a full review of the carrying value of all assets will be carried out, which may result in further write offs in the financial statements for the year ended 31 December, 2002. At this stage, the full extent of the impairment write-off is undetermined.

Standstill Agreement with Senior Creditors

On December 13, 2002, AES Drax signed an agreement regarding certain standstill arrangements with the steering committee representing the bank lenders and an ad hoc committee formed by holders of the senior bonds. The purpose of the standstill is to provide AES Drax and the senior creditors with a period of stability during which discussions regarding consensual restructuring of AES Drax can take place. The standstill period will expire on May 31, 2003, unless extended. The bank lenders and the senior bondholders have agreed to waive certain events of default under the Eurobonds or the senior bonds, as applicable, not to accelerate payment of the obligations and would not seek to enforce security.

Under the Standstill Agreement, AES Drax's bank lenders and senior bondholders have agreed to certain amendments and waivers to their respective financing documents which permits AES Drax to have access to at least £30,000,000 of funds currently unavailable under the financing documentation. These funds, subject to certain consent rights of the steering committee of the bank lenders and the ad hoc committee of senior bondholders, are available to provide credit support to electricity counterparties and suppliers and for working capital needs.

This matter is discussed more fully in Note 1, Basis of Preparation and Accounting Policies.