

Company Registration No. 3878803

AES UK POWER FINANCING LIMITED

Report and Financial Statements

Year ended 31 December 2002



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AES UK POWER FINANCING LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

CONTENTS	Page
Officers and professional advisers	1
Directors' report	2
Statement of directors' responsibilities	3
Independent auditors' report	4
Profit and loss account	5
Statement of total recognised gains and losses	5
Balance sheet	6
Notes to the accounts	7

AES UK POWER FINANCING LIMITED

REPORT AND FINANCIAL STATEMENTS 2002

OFFICERS AND PROFESSIONAL ADVISERS

DIRECTORS

John Turner
Neil Hopkins
Garry Levesley
Naveed Ismail

SECRETARIES

Neil Hopkins

REGISTERED OFFICE

Drax Power Station
Selby
North Yorkshire
YO8 8PQ

AUDITORS

Deloitte & Touche LLP
Chartered Accountants and Registered Auditors
Leeds

AES UK POWER FINANCING LIMITED

DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2002.

ACTIVITIES

The principal activity of the company is that of an intermediate holding company. The company has not traded in the current year and is not expected to trade in the foreseeable future.

REVIEW OF DEVELOPMENTS AND FUTURE PROSPECTS

The Drax group of companies ("Drax") had been operating under standstill arrangements with its senior creditors since 12 December 2002 to provide a period of stability during which consensual restructuring of Drax could take place. On 5 August 2003 The AES Corporation withdrew its support for, and participation in, the restructuring process.

On 30 September 2003, the security trustee delivered enforcement notices affecting the revocation of voting rights in the shares in AES Drax Acquisition Limited, one of the assets held by the company, which were mortgaged in favour of the security trustee.

As of 30 September 2003, The AES Corporation and its subsidiaries have no continuing involvement in Drax, see note 15.

RESULTS AND DIVIDENDS

The results of the period are set out on page 5. The directors do not recommend the payment of a dividend (2001: £Nil).

DIRECTORS AND THEIR INTERESTS

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

John Turner	
Neil Hopkins	
Ian Foy	(Resigned 13 November 2002)
John Prickett	(Resigned 13 November 2002)
John Grimes	(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 during the current or preceding financial year.

AUDITORS

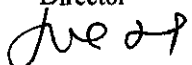
On 1 August 2003, Deloitte & Touche, the company's auditors transferred their business to Deloitte & Touche LLP, a limited liability partnership incorporated under the Limited Liability Partnerships Act 2000. The company's consent has been given to treating the appointment of Deloitte & Touche as extending to Deloitte & Touche LLP with effect from 1 August 2003 under the provisions of section 26(5) of the Companies Act 1989. A resolution to re-appoint Deloitte & Touche LLP as the company's auditor will be proposed at the forthcoming Annual General Meeting.

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



Neil Hopkins

Director

 2004

AES UK POWER FINANCING LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

United Kingdom company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit or loss of the company for that year. 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 2002 which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet and the related notes 1 to 15. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and 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 for the above year and consider the implications for our report if we become aware of any apparent misstatements.

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 basis of preparation of the financial statements. Whilst we consider that the basis of preparation should be drawn to your attention, 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 2002 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Deloitte & Touche LLP

Deloitte & Touche LLP

Chartered Accountants and Registered Auditors
Leeds

29 June 2004

AES UK POWER FINANCING LIMITED

PROFIT AND LOSS ACCOUNT Year Ended 31 December 2002

	Note	2002 £'000	2001 £'000
Administrative expenses - exceptional	4	(172,000)	-
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION	3	(172,000)	-
Tax on loss on ordinary activities	5	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION AND FOR THE FINANCIAL YEAR TRANSFERRED FROM RESERVES	11,12	(172,000)	-

All activities relate to continuing operations

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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

AES UK POWER FINANCING LIMITED

BALANCE SHEET
31 December 2002

	Note	2002 £'000	2001 £'000
FIXED ASSETS			
Investments	6	-	1,000
CURRENT ASSETS			
Debtors	7	-	171,000
CREDITORS: amount falling due within one year	8	<u>(171,000)</u>	<u>-</u>
NET CURRENT (LIABILITIES) / ASSETS		<u>(171,000)</u>	<u>171,000</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		(171,000)	172,000
CREDITORS: amount falling due after more than one year	9	<u>-</u>	<u>(171,000)</u>
NET (LIABILITIES) / ASSETS		<u>(171,000)</u>	<u>1,000</u>
CAPITAL AND RESERVES			
Called up share capital	10	1,000	1,000
Profit and loss account	11	<u>(172,000)</u>	<u>-</u>
TOTAL SHAREHOLDERS' (DEFICIT) / FUNDS	12	<u>(171,000)</u>	<u>1,000</u>

These financial statements were approved by the Board of Directors on *June 29* 2004.
 Signed on behalf of the Board of Directors



Neil Hopkins
 Director

AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2002

1. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation of financial statements

The group impaired its investments during the year leaving net liabilities and is not expected to trade in the foreseeable future. However the directors have continued to prepare the financial statements on the going concern basis because they do not believe that any material adjustments arise from preparation on any other basis.

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 applied consistently in both the current and preceding financial year.

Accounting convention

The financial statements are prepared under the historical cost convention.

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.

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the group's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2. INFORMATION REGARDING DIRECTORS AND EMPLOYEES

All of the directors' remuneration is borne by other wholly owned subsidiaries within The AES Corporation group.

The company had no employees during the year or the preceding year.

3. OPERATING LOSS

Auditors' remuneration has been borne by other group companies in both financial periods.

AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS

Year ended 31 December 2002

4. EXCEPTIONAL ITEMS

		2002 £'000	2001 £'000
Impairment of investment in subsidiaries	(note 6)	1,000	-
Write off of inter-company debt from Drax Power Ltd	(note 7)	171,000	-
		<u>172,000</u>	<u>-</u>

5. TAX ON LOSS ON ORDINARY ACTIVITIES

a) Analysis of charge in the year

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Current tax - United Kingdom corporation tax at 30%	-	-
	<u>-</u>	<u>-</u>

b) Factors affecting tax charge for the current year

The tax for the period is nil rather than that resulting from applying the standard rate of corporation tax of 30% (2001: 30%). The differences are explained below:

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Loss on ordinary activities before tax	(172,000)	-
Tax credit on ordinary activities at 30% (2001: 30%)	51,600	-
<i>Effects of:</i>		
Amounts not deductible for tax	(51,600)	-
Current tax charge for the year	<u>-</u>	<u>-</u>

AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2002

6. INVESTMENTS HELD AS FIXED ASSETS

	£'000
At 31 December 2001	1,000
Impairment (note 4)	(1,000)
	<hr/>
At 31 December 2002	-
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Details of the investment are below:

Name of company	Country of incorporation	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
AES Drax Power Finance Holdings Limited	England & Wales	Ordinary	99%	99%	Non-trading
<i>Indirectly owned</i>					
AES Drax Power Finance Holdings Limited	England & Wales	Ordinary	1%	1%	Non-trading
AES Drax Energy Limited	Cayman Islands	Ordinary	100%	100%	Non-trading
AES Drax Energy II Limited	England & Wales	Ordinary	100%	100%	Non-trading
AES Drax Power Finance Limited	England & Wales	Ordinary	100%	100%	Non-trading
AES Drax Acquisition Holdings Limited	England & Wales	Ordinary	100%	100%	Non-trading
AES Drax Acquisition Limited	England & Wales	Ordinary	100%	100%	Non-trading
AES Drax Holdings Limited	Cayman Islands	Ordinary	100%	100%	Non-trading
AES Drax Electric Limited	Cayman Islands	Ordinary	100%	100%	Non-trading
AES Drax Limited	Cayman Islands	Ordinary	100%	100%	Non-trading
AES Drax Power Limited	England & Wales	Ordinary	100%	100%	Electricity generation

7. DEBTORS

	2002	2001
	£'000	£'000
Amounts due within one year		
Amount owed by subsidiary undertaking	-	171,000
	<hr/>	<hr/>

This intercompany debt was written off in the year ended 31 December 2002 incurring an exceptional charge to the profit & loss account

8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	2002	2001
	£'000	£'000
Amount owed to immediate parent	171,000	-
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AES UK POWER FINANCING LIMITED

NOTES TO THE ACCOUNTS Year ended 31 December 2002

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

	2002 £'000	2001 £'000
Amount owed to immediate parent	-	171,000

Amounts owed to the immediate parent were reclassified from long term to short term creditors in the year.

10. CALLED UP SHARE CAPITAL

	2002 £'000	2001 £'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

11. PROFIT AND LOSS ACCOUNT

	£'000
At 1 January 2002	-
Retained loss for the financial year	(172,000)
At 31 December 2002	(172,000)

12. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2002 £'000	2001 £'000
Loss for the financial year	(172,000)	-
Net movement in shareholders' funds	(172,000)	-
Opening shareholders' funds	1,000	1,000
Closing shareholders' funds	(171,000)	1,000

13. ULTIMATE PARENT COMPANY

The immediate parent company, and smallest group for which accounts are prepared 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, Crown Way, Cardiff CF14 3UZ.

The ultimate parent company and controlling entity, and largest group for which accounts are prepared, 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.

NOTES TO THE ACCOUNTS
Year ended 31 December 2002

14. 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.

15. POST BALANCE SHEET EVENTS

Standstill Agreement with Senior Creditors

The Drax group of companies ("Drax") had been operating under Standstill Arrangements with its senior creditors since 12 December 2002. The purpose of the Standstill Arrangements being to provide Drax and the senior creditors with a period of stability during which discussions regarding consensual restructuring of Drax could take place. The bank lenders and the senior bondholders agreed to waive certain events of default under the Eurobonds or the senior bonds, as applicable, not to accelerate payment of the obligations and not seek to enforce security during the standstill period. Although the standstill period under the Original Standstill Agreement terminated on 31 May 2003, Drax reached agreement on three further standstill agreements, which have now expired. We understand, solely based on the publicly filed information contained in Drax's Form 6-k filed on 28 October 2003 that Drax entered into an additional standstill agreement, called the "Long Term Standstill Agreement" which became effective on 8 October 2003 and was to expire on 31 December 2003, unless terminated earlier or extended in accordance with its terms.

We understand that on 22 December 2003 restructured credit arrangements were entered into by Drax with the senior creditors. At the time AES entered into a letter agreement with Drax, the senior creditors and others under which AES and certain of its subsidiaries were released from their obligations under the original credit agreement.

The AES Corporation

Based on negotiations through the end of June 2003, Drax Holdings Limited, The AES Corporation, the steering committee (the "Steering Committee") representing the syndicate of banks (the "Senior Lenders") which financed the Eurobonds issued by Drax Holdings Limited to finance the acquisition of the Drax power station, and the Ad Hoc Committee formed by holders of Drax Holdings Limited's Senior Bonds (the "Ad Hoc Committee" and, together with the Steering Committee, the "Senior Creditors Committees"), reached agreement on more detailed terms of a Consensual Restructuring, and each of the Senior Creditors Committees, the Drax Companies and The AES Corporation indicated their support for a Restructuring to be implemented based upon the proposed restructuring terms (the "June Restructuring Proposal") that was published by Drax on Form 6-k on 30 June 2003.

On 5 August 2003 The AES Corporation withdrew its support for, and participation in, the June Restructuring Proposal. On the same date Neil Hopkins, Naveed Ismail, Garry Levesley and John Turner resigned as directors of Drax Holdings Limited and Drax Power Limited and stated their intention to resign as directors from the boards of the other Drax companies (other than AES Drax Power Finance Holdings Limited and AES Drax Energy Limited), and they resigned from AES Drax Acquisition Limited, Drax Electric Limited and Drax Limited on 8 August 2003. Accordingly, the boards of each of Drax Holdings Limited and Drax Power Limited now comprise Lord Taylor of Blackburn, Gordon Horsfield and Gerald Wingrove, the boards of each of Drax Electric Limited and Drax Limited comprise Lord Taylor of Blackburn, Gordon Horsfield and Gerald Wingrove and the board of AES Drax Acquisition Limited comprises Gordon Horsfield and Gerald Wingrove.

On 30 September 2003, the security trustee delivered enforcement notices to Drax thereby effecting the revocation of voting rights in the shares in AES Drax Acquisition Limited, Drax's parent company which were mortgaged in favour of the security trustee.

The AES Corporation and its subsidiary companies have no continuing involvement in Drax as of 30 September 2003.