

Company Registration No. 05562058

# **DRAX FINANCE LIMITED**

Report and Financial Statements

31 December 2009

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# **DRAX FINANCE LIMITED**

## **FINANCIAL STATEMENTS**

**YEAR ENDED 31 DECEMBER 2009**

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# **DRAX FINANCE LIMITED**

## **OFFICERS AND PROFESSIONAL ADVISERS**

**YEAR ENDED 31 DECEMBER 2009**

**Board of directors**

Dorothy Thompson  
Peter Emery  
Tony Quinlan

**Company Secretary**

Philip Hudson

**Registered office**

Drax Power Station  
Selby  
North Yorkshire  
YO8 8PH

**Auditors**

Deloitte LLP  
2 New Street Square  
London  
EC4A 3BZ

**Solicitors**

Norton Rose  
3 More London Riverside  
London  
SE1 2AQ

# **DRAX FINANCE LIMITED**

## **DIRECTORS' REPORT**

### **YEAR ENDED 31 DECEMBER 2009**

The directors present the report and the financial statements of the Company for the year ended 31 December 2009

#### **PRINCIPAL ACTIVITIES AND BUSINESS REVIEW**

The principal activity of the Company is the raising and provision of debt finance for the benefit of the Drax group of companies (together "Drax Group") This is expected to continue in the foreseeable future

On 3 August 2009, Drax Group plc ('the Group') completed the refinancing of its outstanding term loan facilities and working capital facility, both of which would otherwise have fallen due for repayment on 31 December 2010 The maturity date of both facilities has been extended to December 2012, at which point they will be repaid in full

#### **RESULTS AND DIVIDENDS**

The Company's profit after tax for the year amounted to £176.5 million (2008 £146.8 million) Interim dividends were paid in January 2009, totalling 10.87p per ordinary share (2008 8.92p) amounting to £134.0 million (2008 £110.0 million) The directors do not recommend payment of a final dividend in respect of 2009 (2008 £nil)

#### **FINANCIAL RISK MANAGEMENT**

The Company is exposed to interest rate risk principally in relation to its outstanding bank debt In particular, it is exposed to changes in the LIBOR interest rate of sterling-denominated debt, as all of its debt is denominated in sterling and has a variable LIBOR rate The Company has interest rate swaps in place which hedge against the interest rate exposure on a proportion of floating rate debt

Information about the Company's instruments that are exposed to interest rate risk and their repayment schedules is included within the notes to the financial statements

#### **GOING CONCERN**

On the basis of their assessment of the Company's financial position, the directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future Thus they continue to adopt the going concern basis of accounting in preparing the annual financial statements

#### **DIRECTORS**

The directors who served the Company throughout the full year are listed under Officers and professional advisors (page one)

# **DRAX FINANCE LIMITED**

## **DIRECTORS' REPORT** *(continued)*

**YEAR ENDED 31 DECEMBER 2009**

### **DIRECTORS' RESPONSIBILITIES**

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and accounting estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business


The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### **AUDITORS AND THE DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditors in connection with preparing the report, of which the auditors are unaware. Having made enquiries of fellow directors and the Company's auditors, each director has taken all the steps that he/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditors are aware of that information. This information is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

A resolution to re-appoint Deloitte LLP as auditors for the ensuing year will be proposed at the annual general meeting in accordance with Sections 485-488 of the Companies Act 2006.

By order of the directors



**PHILIP HUDSON**  
Company Secretary  
11 May 2010

# **DRAX FINANCE LIMITED**

## **INDEPENDENT AUDITORS' REPORT**

### **TO THE SHAREHOLDER OF DRAX FINANCE LIMITED**

We have audited the financial statements of Drax Finance Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet and the related notes 1 to 15. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

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

#### **Scope of the audit of the financial statements**

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

#### **Opinion on financial statements**

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2009 and of its profit for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

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

#### **Matters on which we are required to report by exception**

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

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



Dean Cook BA FCA (Senior Statutory Auditor)  
for and on behalf of Deloitte LLP  
Chartered Accountants and Statutory Auditors  
London, UK  
11 May 2010

# **DRAX FINANCE LIMITED**

## **PROFIT AND LOSS ACCOUNT**

**YEAR ENDED 31 DECEMBER 2009**

	Note	Years ended 31 December	
		2009	2008
		£000	£000
<b>OPERATING LOSS</b>	<b>2</b>	<b>(31)</b>	<b>(45)</b>
Income from shares in group undertakings		<b>187,610</b>	166,244
Interest receivable	<b>3</b>	<b>827</b>	-
Interest payable and similar charges	<b>4</b>	<b>(16,183)</b>	(27,180)
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		<b>172,223</b>	139,019
Tax on profit on ordinary activities	<b>5</b>	<b>4,308</b>	7,759
<b>PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION</b>		<b>176,531</b>	146,778

All results relate to continuing operations

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

The Company has no recognised gains or losses other than the results for the year as set out above and accordingly no statement of total recognised gains and losses has been prepared

**The notes on pages 7 to 13 form part of these financial statements.**

# DRAX FINANCE LIMITED

## BALANCE SHEET

31 DECEMBER 2009

		As at 31 December	
		2009	2008
	Note	£000	£000
<b>FIXED ASSETS</b>			
Investments	7	1,367,544	1,367,275
<b>CURRENT ASSETS</b>			
Debtors	8	13,829	9,825
Cash at bank		11	39
		<u>13,840</u>	<u>9,864</u>
<b>CREDITORS: Amounts falling due within one year</b>	9	<u>(200,399)</u>	<u>(15,109)</u>
<b>NET CURRENT LIABILITIES</b>		<u>(186,559)</u>	<u>(5,245)</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>		<u>1,180,985</u>	<u>1,362,030</u>
<b>CREDITORS: Amounts falling due after one year</b>	10	<u>(126,462)</u>	<u>(350,038)</u>
<b>NET ASSETS</b>		<u>1,054,523</u>	<u>1,011,992</u>
<b>CAPITAL AND RESERVES</b>			
Called-up share capital	13	1,233	1,233
Profit and loss account	14	1,053,290	1,010,759
<b>TOTAL SHAREHOLDER'S FUNDS</b>	14	<u>1,054,523</u>	<u>1,011,992</u>

The financial statements of Drax Finance Limited, registered number 05562058, were approved by the Board of directors on 11 May 2010

Signed on behalf of the Board of directors



Tony Quinlan  
Director

The notes on pages 7 to 13 form part of these financial statements.



# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED 31 DECEMBER 2009

### 1. ACCOUNTING POLICIES

#### Basis of accounting

The financial statements have been prepared on the going concern basis, as described on page two, under the historical cost convention, and in accordance with Companies Act 2006 and applicable United Kingdom accounting standards

The particular accounting policies adopted are described below and have been consistently applied during the year and during the previous year

#### Exemption from preparing group accounts

The Company is a wholly owned subsidiary of another company incorporated in the UK and in accordance with Section 400(1)(a) of the Companies Act 2006, is not required to produce consolidated accounts

#### Cash flow statement

The directors have taken advantage of the exemption in Financial Reporting Standard ("FRS") 1 'Cash Flow Statements (Revised 1996)' from including a cash flow statement in the financial statements on the grounds that the Company is wholly owned and its ultimate parent publishes a consolidated cash flow statement which includes the cash flows of the Company

#### Fixed assets investments

Fixed asset investments in subsidiaries are stated at cost less, where appropriate, provision for impairment

#### Debt instruments

The Company measures all debt instruments, whether financial assets or financial liabilities, initially at fair value of the consideration paid or received. Transaction costs (any such costs incremental and directly attributable to the issue of the financial instrument) are included in the calculation of the effective interest rate and are, in effect, amortised through the profit and loss account over the life of the instrument. Subsequent to initial measurement, debt instruments are measured at amortised cost using the effective interest method

#### Derivative instruments

The Company enters into derivative transactions in order to hedge its exposure to certain market risks. The Company has interest rate swaps in place to hedge against interest rate exposure on a proportion of its floating rate debt. Amounts receivable or payable under the swaps are shown within interest

#### Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date

### 2. OPERATING LOSS

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

### 3. INTEREST RECEIVABLE

	Years ended 31 December	
	2009	2008
	£000	£000
Interest from group undertakings	<u>827</u>	<u>-</u>

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2009

### 4. INTEREST PAYABLE AND SIMILAR CHARGES

	Years ended 31 December	
	2009	2008
	£000	£000
Interest payable on bank borrowings	10,411	24,109
Interest owed to group undertakings	2,941	-
Amortisation of deferred financing costs	2,831	3,071
	<u>16,183</u>	<u>27,180</u>

### 5. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

Analysis of tax credit in the period

	Years ended 31 December	
	2009	2008
	£000	£000
<b>Current tax</b>		
Group relief - current year	(4,308)	(7,759)
<b>Tax credit on profit on ordinary activities</b>	<u>(4,308)</u>	<u>(7,759)</u>

#### Factors affecting current tax credit

The differences between the total current tax shown above and the amount calculated by applying the standard rate of corporation tax in the UK of 28% (2008 28.5%), to the profit before tax is as follows

	Years ended 31 December	
	2009	2008
	£000	£000
Profit on ordinary activities before taxation	<u>172,223</u>	<u>139,019</u>
Profit on ordinary activities before tax multiplied by standard rate of tax of 28% (2008 28.5%)	48,222	39,620
Effect of		
Income from group undertakings – non taxable	(52,530)	(47,379)
<b>Total current tax credit</b>	<u>(4,308)</u>	<u>(7,759)</u>

### 6. DIVIDENDS

	Years ended 31 December	
	2009	2008
	£000	£000
<b>Amounts recognised as distributions to shareholder in the year:</b>		
Interim dividend paid in January 2009 in respect of year end 31 December 2009 totalling 10.87p per ordinary share	134,000	-
Interim dividend paid in January and June 2008 in respect of year end 31 December 2008 totalling 8.92p per ordinary share	-	110,000
	<u>134,000</u>	<u>110,000</u>

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (*continued*)

YEAR ENDED 31 DECEMBER 2009

### 7. INVESTMENTS

	Subsidiary undertakings £000
<b>COST</b>	
At 1 January 2009	1,410,527
Capital contribution	269
<b>At 31 December 2009</b>	<b>1,410,796</b>
 <b>PROVISIONS FOR IMPAIRMENT</b>	
At 1 January and 31 December 2009	<b>(43,252)</b>
 <b>NET BOOK VALUE</b>	
At 31 December 2008	1,367,275
<b>At 31 December 2009</b>	<b>1,367,544</b>

During the year the Company made a capital contribution of £268,630 to cover temporary losses, subsequently reversed, within a subsidiary company and allow the subsidiary to maintain its net asset position

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

	Country of incorporation and registration	Type of share	Effective shareholding
<b>Direct subsidiary undertakings</b>			
Drax Group Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company)	Cayman Islands	Ordinary	33 33%
Drax GCo Limited (non-trading company)	England and Wales	Guarantee	100%
<b>Indirect subsidiary undertakings</b>			
Drax Intermediate Holdings Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Holdings Limited (holding company)	Cayman Islands	Ordinary	66 67%
Drax Electric Limited (in members' voluntary liquidation) (dormant company)	Cayman Islands	Ordinary	100%
Drax Limited (holding company)	Cayman Islands	Ordinary	100%
Drax Power Limited (trading company, power generation)	England and Wales	Ordinary	100%
Drax Ouse (dormant company)	England and Wales	Ordinary	100%
Drax Investments Limited (investment company)	England and Wales	Ordinary	100%
Haven Power Limited (trading company, power retail)*	England and Wales	Ordinary	100%

\*Addition in the year

All subsidiary undertakings operate in their country of incorporation. All subsidiary undertakings have 31 December year ends, except for Drax Holdings Limited, which has a 30 December year end

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (continued)

YEAR ENDED 31 DECEMBER 2009

### 8. DEBTORS

	As at 31 December	
	2009	2008
	£000	£000
<b>Amounts falling due within one year</b>		
Amounts due from other group undertakings	13,762	9,825
Prepayments and other debtors	67	-
	<u>13,829</u>	<u>9,825</u>

The amounts due from other group undertakings excluding group relief bear interest at a rate of LIBOR plus 3.5%, payable on 30 June and 31 December each year. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

### 9. CREDITORS: Amounts falling due within one year

	As at 31 December	
	2009	2008
	£000	£000
Bank loans and overdrafts	62,751	14,882
Amounts owed to other group undertakings	135,399	88
Accruals	2,249	139
	<u>200,399</u>	<u>15,109</u>

The amounts due to other group undertakings bear interest at a rate of LIBOR plus 3.5%, payable on 30 June and 31 December each year. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

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

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

	As at 31 December	
	2009	2008
	£000	£000
Bank loans and overdrafts	<u>126,462</u>	<u>350,038</u>

#### Analysis of bank borrowings

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

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS (*continued*)

YEAR ENDED 31 DECEMBER 2009

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

#### Analysis of bank borrowings (*continued*)

	As at 31 December 2008		
	Borrowings before deferred finance costs	Deferred finance costs	Net borrowings
	£000	£000	£000
Term loans	370,000	(5,080)	364,920
Less amounts falling due within one year	(15,000)	118	(14,882)
<b>Amounts falling due after more than one year</b>	<b>355,000</b>	<b>(4,962)</b>	<b>350,038</b>

Scheduled term loan repayments of £32.5 million were made on each of 30 June 2009 and 31 December 2009. Previously, scheduled repayments of £17.5 million were made on each of 30 June 2008 and 31 December 2008. These repayments were made in line with the target repayment profile as a result of the levels of cash available for debt service.

£105.0 million of the term loans was repaid on 31 July 2009, using the proceeds of a share placing announced by Drax Group plc on 23 June 2009.

On 3 August 2009, Drax Finance completed the refinancing of the balance of the term loan facility and the £100 million working capital facility which would otherwise have fallen due for repayment on 31 December 2010. The maturity date of both facilities has been extended to December 2012. Scheduled debt repayments are £65.0 million in 2010 and £67.5 million in each of 2011 and 2012, after which point the term loan will have been repaid in full.

The terms of this supplementary facility agreement are substantially the same as the existing facilities, except that the initial margin over LIBOR for the new facilities is 3.5%. The margin on the existing facilities of 0.8% has been increased to be consistent with the margin on the new agreement.

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

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

The Company's bank borrowings are guaranteed and secured by the Company and each of its direct and indirect subsidiary undertakings, as set out in note 7 to the financial statements.

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

	As at 31 December	
	2009	2008
	%	%
Term loans	<u>5.93</u>	<u>4.09</u>

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2009

### 11. DERIVATIVES AND FINANCIAL INSTRUMENTS NOT INCLUDED AT FAIR VALUE

The Company has derivatives which are not included at fair value in the accounts

	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps	-	(7,267)	-	(7,524)

#### Interest rate risk

The Company is exposed to interest rate risk principally in relation to its outstanding bank debt. In particular, it is exposed to changes in the LIBOR interest rate of sterling denominated debt, as all of its debt is both denominated in sterling and has a variable LIBOR rate. The Company mitigates this risk with interest rate hedges on a proportion of its debt facilities. Information about the Company's instruments that are exposed to interest rate risk and their repayment schedules is included in note 10.

#### Interest rate swaps

The Company enters into interest rate swap arrangements to hedge variable interest costs on bank borrowings. As required under the terms of the Drax Group Forward Start credit facilities agreement, on 22 October 2009, the Company entered into interest rate swap contracts with notional principal amounts of £95.0 million, and with a similar repayment profile as the term loan, therefore at 31 December 2009 the notional principle amounts remaining were £82.5 million (2008: £150.0 million).

### 12. RELATED PARTY TRANSACTIONS

The company has taken advantage of the exemption granted by paragraph 3(c) of FRS 8 'Related Party Disclosures', not to disclose transactions with other Drax Group companies. Costs in respect of auditors' and Companies House fees were borne by another group undertaking.

### 13. SHARE CAPITAL

#### Authorised share capital

	2009 £000	2008 £000
2,000,000,000 Ordinary shares of £0.001 each	2,000	2,000

#### Allotted, called-up and fully paid

	Number	2009 £000	Number	2008 £000
Ordinary shares of £0.001 each	1,233,091,002	1,233	1,233,091,002	1,233

# DRAX FINANCE LIMITED

## NOTES TO THE FINANCIAL STATEMENTS *(continued)*

YEAR ENDED 31 DECEMBER 2009

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

			2009	2008
	Share capital	Profit and loss account	Total shareholder's funds	Total shareholder's funds
	£000	£000	£000	£000
At 1 January	1,233	1,010,759	1,011,992	975,214
Profit for the year	–	176,531	176,531	146,778
Equity dividends paid (note 6)	–	(134,000)	(134,000)	(110,000)
At 31 December	1,233	1,053,290	1,054,523	1,011,992

### 15. ULTIMATE PARENT COMPANY

The immediate and ultimate parent company is Drax Group plc, a publicly listed company incorporated in England and Wales. Drax Group plc is the smallest and largest group for which consolidated financial statements are prepared. Copies of the consolidated financial statements for Drax Group plc are available from Company Secretary, Drax Power Station, Selby, North Yorkshire YO8 8PH.