

# **Drax Smart Generation Holdco Limited**

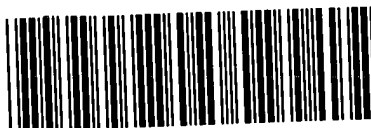
Report and Audited Financial Statements

Year Ended

31 December 2020

Company Number 07821911

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# **Drax Smart Generation Holdco Limited**

## **Report and Audited Financial Statements for the year ended 31 December 2020**

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### **Directors**

Andrew Koss (resigned 7 April 2020)  
Will Gardiner  
Andy Skelton

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### **Company Secretary**

Brett Gladden

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### **Registered office**

Drax Power Station  
Drax  
Selby  
North Yorkshire  
YO8 8PH

### **Company number**

07821911

### **Auditor**

Deloitte LLP  
Statutory Auditor  
1 New Street Square  
London  
EC4A 3HQ

# Drax Smart Generation Holdco Limited

## Strategic Report for the year ended 31 December 2020

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### Introduction

The Directors present their Strategic Report for Drax Smart Generation Holdco Limited (the “Company”) for the year ended 31 December 2020. This Strategic Report contains forward-looking statements. These statements are made by the Directors in good faith and based on the information available to them at the time of their approval of this report and such statements should be treated with caution due to their inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.

### Principal activity

The principal activity of the Company is that of a holding company. The Company is a member of the Drax Group plc group of companies (the “Group”). The Company’s principal activity is expected to continue for the foreseeable future.

### Business review

The profit for the year, after taxation, amounted to £69,045k (2019: £74,586k). Income of £70,000k was received in the year from shares in Group undertakings (2019: £81,233k). This income was subsequently paid as a dividend to the Company’s immediate Parent Company Drax Corporate Limited. The interest expense in the year decreased to £1,293k (2019: £1,464k). This is due to a decrease in the Company’s borrowings from other Group companies.

The Company has owned Drax Generation Enterprise Limited since 31 December 2018. On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation enterprise Limited, which held the Group’s Combined Cycle Gas Turbine (CCGT) power stations, to VPI Generation Limited as the assets did not form part of the Group’s core flexible and renewable generation strategy. The sale was agreed for headline cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek. Accordingly, these assets are a disposal Group and have been recognised as held for sale at 31 December 2020. The sale subsequently completed on 31 January 2021 and Drax Generation Enterprise Limited ceased to be a subsidiary undertaking of the Company from this date. Further information on the sale can be found on pages 195 and 196 of the 2020 Drax Group plc Annual report and accounts.

Prior to the acquisition of Drax Generation Enterprise Limited by the Company, the Scottish Environmental Protection Agency (SEPA), in their role as environmental regulator, had informed Drax Generation Enterprise Limited that it must reduce the level of odour that its subsidiaries plant was releasing into the surrounding area. The Company received £2,100k in 2019 from ScottishPower Generation Holdings Limited as consideration for the Company releasing ScottishPower Generation Holdings Limited from the requirement of reimbursing the Company for any losses incurred in relation to this issue. The amounts received were classified as other operating income.

At the Balance Sheet date, the Company had net current liabilities of £577,380k (2019: £737,430k). This is primarily due to the amounts owed to Group undertakings including the on-lent funds relating to the acquisition of Drax Generation Enterprise Limited.

### Principal risks and uncertainties

The principal risk and uncertainty that could impact the Company’s future financial performance is the potential for impairment in the value of its fixed asset investments. The future performance of the Company is dependent on the performance of its subsidiaries. The factors affecting the future performance of the Company’s subsidiaries are set out in the Group’s 2020 Annual report and accounts on pages 66 to 77.

# Drax Smart Generation Holdco Limited

## Strategic Report for the year ended 31 December 2020 (*continued*)

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### Financial and non-financial key performance indicators

Given the nature of the Company's business, the Directors concluded that there are no KPIs relevant to the understanding of the Company's performance and position.

### Companies Act, Section 172 statement

The directors have a duty to promote the success of the Company, having regard to a range of matters and stakeholders. The Board recognises that decisions taken today will shape both the longer-term performance of the business and its impact on our various stakeholders, and therefore factors in the long-term impact on stakeholders during decision making.

The Board is responsible for engagement with a range of stakeholders, and believes that considering the interests of our stakeholders in key business decisions is fundamental to the ability of the Company and the Drax Group plc group of companies (the "Group"), to deliver sustainable value creation. This consideration enables the Company and the Group to have a positive impact on the environment, our communities and wider society over the longer term.

A comprehensive list of stakeholders identified across the Group, and how we engage with them and have regard to their interests, can be found from pages 40 to 45 in the 2020 Drax Group plc Annual report and accounts. Examples of some of the Company's key stakeholders include:

#### **Workforce**

One of the Company's key stakeholders is our workforce. Engaging with the workforce enables employees to be better informed and able to contribute to the delivery of our purpose and strategy, whilst creating a safe and engaging culture and environment where our employees feel valued, respected and listened to. We want all employees to feel they can grow, develop and make a meaningful contribution to our strategy, purpose and communities, whilst building resilience to cope with the context in which we are operating.

We maintain regular dialogue with our workforce through our Generation employee engagement ("My Voice") forum, colleague briefings, weekly updates and Q&A from our CEO and our pulse and annual engagement surveys.

The Generation My Voice forum is made up of members nominated by colleagues across from the Generation business unit and meets formally each quarter. The chairs of each forum, across the Group, come together quarterly to discuss workforce issues across the business, and discuss topics where workforce feedback has been sought. The chairs then meet with the Chair of the Drax Group plc Board of Directors and the CEO to discuss the key issues raised, with feedback from these meetings then shared with all forum members.

Matters discussed during 2020 include diversity and inclusion, how effectively our Covid-19 response was communicated, colleague wellbeing in lockdown, and how colleagues would prefer to work in future. We listened to and acted on colleague feedback - we introduced flexible working policies including working from home policy and guidance, developed our diversity and inclusion strategy, developed and delivered plans to further support colleague wellbeing including: a dedicated intranet resource; Mental Health Awareness training for managers; building resilience e-learning for all colleagues; raising further awareness of existing wellbeing benefits available and a step challenge to encourage physical fitness and (virtual) social connection, and creating a dedicated intranet resource to clarify the latest guidance and information about Covid-19.

Our dialogue with employees also includes regular communication about the Company's, and the Group's, strategy, plans and performance. During 2020, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for employees are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage employee participation in the Group-wide all-employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements. During 2020, more than half of all UK employees across the Group participated in a Drax Sharesave scheme.

# Drax Smart Generation Holdco Limited

## Strategic Report (*continued*) for the year ended 31 December 2020

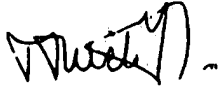
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### **Shareholders**

Our ultimate Parent Company is Drax Group plc and therefore we act in the best interests of our immediate and ultimate Parent Companies and, in doing so, in the best interest of the investors and shareholders of the Group. This ensures that the interests of all relevant stakeholders, and the need to act fairly between members of the Company, are considered during decision-making.

Drax engages with shareholders through a wide range of channels including our website, Drax AGM, full-year and half-year results. We also have an ongoing programme of investor relations meetings. Reflecting feedback from investors, in 2020 we continued to develop our programme of ESG reporting.

This report was approved by the Board on 18 June 2021 and signed on its behalf.



**Will Gardiner**  
Director

# Drax Smart Generation Holdco Limited

## Directors' Report for the year ended 31 December 2020

The Directors present their report and the audited financial statements of Drax Smart Generation Holdco Limited (the "Company") for the year ended 31 December 2020.

The Company is part of the Drax Group plc group of companies (the "Group").

### Going concern

The Directors have assessed the prospects of the Company over the 12-month period after the date that these financial statements were authorised for issue. The Directors have considered the forecast financial performance of the Company, the Company's commitments and obligations, the Company's expected cashflows and other relevant financial forecasts. This assessment has considered the level of funding available to the Company, including participation in the Group's cash pool arrangements and other forms of internal support, credit metrics and the current and future economic climate.

In their assessment, the Directors have considered the principal risks faced by the Company including, Covid-19 and climate change.

2020 witnessed the outbreak of Covid-19 with global economic impact. For the Group, the safety and wellbeing of colleagues remained paramount. The Company did not seek any Covid-19 financial support from the UK Government. Despite the challenges of operating in a Covid-19 environment, there were no material impacts during the year on the Company's operations or financial performance.

Given the nature of this Company as a holding company, its performance is underpinned by the performance of its subsidiaries. At 31 December 2020, the Company had net current liabilities of £577,380k (2019: net current liabilities of £737,430k). This is primarily due to the amounts owed to Group undertakings including the on-lent funds relating to the original acquisition of Drax Generation Enterprise Limited. Subsequent to the Balance Sheet date the balance owed to Group undertakings have reduced as a result of the funds received from the disposal of Drax Generation Enterprise Limited netting down the amounts owed by the Company. Noting the written confirmation of Group support, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

### Results and dividends

The profit for the year, after taxation, amounted to £69,045k (2019: £74,586k).

During the year, the Company received dividends of £70,000k and the Directors approved the subsequent payment of this dividend to the Company's immediate Parent Company Drax Corporate Limited (2019: £81,233k). The Directors do not recommend the payment of a final dividend for the current financial year (2019: £nil).

### Post balance sheet event

On 7 January 2021, the Company received dividends of £80,000k and the Directors approved the subsequent use of these funds to partially settle an intercompany balance owed to the Company's immediate Parent Company Drax Corporate Limited.

Post balance sheet movement in the Company's fixed asset investments and contingent liabilities are detailed in note 8 and 14 respectively.

### Matters covered in the Strategic report

Details of the principal activities of the Company, the business review and future developments of the Company are disclosed in the Strategic Report on page 1. Engaging with our stakeholders, including our workforce and those with whom we have a business relationship, is fundamental to our success. We recognise that to achieve our purpose, we need to listen to, and work with, a diverse range of interested parties. For more information on our stakeholders, how we engage with them and have regard to their interests, please refer to the Strategic report.

# Drax Smart Generation Holdco Limited

## Directors' Report for the year ended 31 December 2020 (continued)

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### Directors

The Directors who served during the year are disclosed on the Company information page.

### Third party indemnity insurance

The Company has the appropriate indemnity insurance cover in place in respect of legal action against the Directors of the Company and its subsidiaries.

### Directors' responsibilities

The Directors are responsible for preparing the Directors' 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), including FRS 101 "Reduced Disclosure Framework". 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 judgements and accounting estimates that are reasonable and prudent; and
- 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 to 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.

### Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' Report is approved has confirmed that:

- \* so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- \* the Director has taken all the steps that ought to have been taken as a Director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

### Auditor

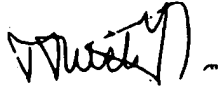
The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

# Drax Smart Generation Holdco Limited

## Directors' Report for the year ended 31 December 2020 (*continued*)

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This report was approved by the Board on 18 June 2021 and signed on its behalf.



**Will Gardiner**  
Director



# Drax Smart Generation Holdco Limited

## Independent Auditor's Report to the Members of Drax Smart Generation Holdco Limited

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### Report on the audit of the financial statements

#### Opinion

In our opinion the financial statements of Drax Smart Generation Holdco Limited (the 'Company'):

- give a true and fair view of the state of the Company's affairs as at 31 December 2020 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 16.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

#### Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

# Drax Smart Generation Holdco Limited

## Independent Auditor's Report to the Members of Drax Smart Generation Holdco Limited (*continued*)

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### Responsibilities of Directors

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, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

We considered the nature of the Company's industry and its control environment, and reviewed the Company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management about their own identification and assessment of the risks of irregularities.

We obtained an understanding of the legal and regulatory frameworks that the Company operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team including relevant internal specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance.

# Drax Smart Generation Holdco Limited

## Independent Auditor's Report to the Members of Drax Smart Generation Holdco Limited (*continued*)

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### Report on other legal and regulatory requirements

#### Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' Report.

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

Under the Companies Act 2006 we are required to report in respect of the following matters 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.

We have nothing to report in respect of these matters.

#### Use of our report

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 auditor's 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.

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Marianne Milnes FCA (Senior statutory auditor)  
For and on behalf of Deloitte LLP  
Statutory Auditor  
London, UK  
18 June 2021

# Drax Smart Generation Holdco Limited

## Income Statement for the year ended 31 December 2020

	Note	2020 £000	2019 £000
Income from shares in Group undertakings		70,000	81,233
Other operating income	4	-	2,100
Operating costs	4	-	(8,725)
<b>Operating profit</b>	4	<b>70,000</b>	<b>74,608</b>
Interest payable	6	(1,293)	(1,464)
<b>Profit before tax</b>		<b>68,707</b>	<b>73,144</b>
Tax credit	7	338	1,442
<b>Profit for the financial year</b>		<b>69,045</b>	<b>74,586</b>

There was no other comprehensive income for 2020 (2019: £nil) and therefore a separate Statement of Other Comprehensive Income is not presented.

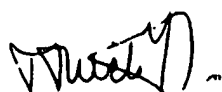
The notes on pages 13 to 22 form part of these financial statements.

# Drax Smart Generation Holdco Limited

## Balance Sheet at 31 December 2020

<b>Company number 07821911</b>	<b>Note</b>	<b>2020 £000</b>	<b>2019 £000</b>
<b>Non-current assets</b>			
Investments	8	2,202,540	2,363,756
Deferred taxation	12	211	-
<b>Current assets</b>			
Trade and other receivables	10	-	2,186
Assets held for sale	9	161,216	-
<b>Current liabilities</b>			
Trade and other payables	11	(738,596)	(739,616)
<b>Net current liabilities</b>		<b>(577,380)</b>	<b>(737,430)</b>
<b>Total assets less current liabilities</b>		<b>1,625,371</b>	<b>1,626,326</b>
<b>Net assets</b>		<b>1,625,371</b>	<b>1,626,326</b>
<b>Capital and reserves</b>			
Called up share capital	13	100,000	100,000
Retained earnings		1,525,371	1,526,326
<b>Equity attributable to the owners of the Parent Company</b>		<b>1,625,371</b>	<b>1,626,326</b>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 18 June 2021.



**Will Gardiner**  
Director

The notes on pages 13 to 22 form part of these financial statements.

# Drax Smart Generation Holdco Limited

## Statement of Changes in Equity for the year ended 31 December 2020

	Called up share capital £000	Retained earnings £000	Total equity £000
<b>At 1 January 2019</b>	100,000	1,532,973	1,632,973
<b>Comprehensive income for the year</b>			
Profit for the year	-	74,586	74,586
<b>Total comprehensive income for the year</b>	-	74,586	74,586
Dividends paid	-	(81,233)	(81,233)
<b>Total transactions with owners</b>	-	(81,233)	(81,233)
<b>At 1 January 2020</b>	100,000	1,526,326	1,626,326
<b>Comprehensive income for the year</b>			
Profit for the year	-	69,045	69,045
<b>Total comprehensive income for the year</b>	-	69,045	69,045
Dividends paid	-	(70,000)	(70,000)
<b>Total transactions with owners</b>	-	(70,000)	(70,000)
<b>At 31 December 2020</b>	100,000	1,525,371	1,625,371

The notes on pages 13 to 22 form part of these financial statements.

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020

### 1 General information

Drax Smart Generation Holdco Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office can be found on the Company information page and the nature of the Company's operations and its principal activities are set out in the Strategic Report.

### 2 Accounting policies

#### 2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention unless otherwise specified within these accounting policies and in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 may require the use of certain critical accounting estimates. It also requires management to exercise judgement in applying the Company's accounting policies. Management have concluded that there are no significant judgements or source of estimation uncertainty as defined by IAS 1 within these financial statements. See note 3 for further details.

#### 2.2 Going concern

At 31 December 2020, the Company had net current liabilities of £577,380k, however, the Balance Sheet is supported by significant fixed asset investments in trading subsidiary undertakings. As discussed in the Directors' Report on page 4, the Directors have reviewed the financial position of the Company and considered the impact of Covid-19 on the wider Group. Noting the written confirmation of Group support, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

#### 2.3 Exemption from preparing consolidated 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. Therefore, these financial statements are prepared for the Company as an entity only.

#### 2.4 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 10(d), 10(f), 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a Group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

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### 2 Accounting policies (continued)

This information is included in the consolidated financial statements of Drax Group plc as at 31 December 2020 and these financial statements may be obtained from Drax Power Station, Drax, Selby, North Yorkshire, YO8 8PH.

#### 2.5 Investments

Investments in subsidiaries are measured at cost less accumulated impairment.

#### 2.6 Trade and other receivables

Trade and other receivables are initially measured at transaction price, and subsequently at amortised cost less impairment. A provision for impairment of trade receivables is measured at an amount equal to the lifetime expected credit loss.

Applying the Business Model and SPPI ('Solely payments of principal and interest') test in accordance with IFRS 9, the loans receivable are classified as amortised cost as the assets are held to collect contractual cashflows which are made up solely of payments of principal and interest. The trade receivables require payment only of fixed amounts on fixed dates.

#### 2.7 Trade and other payables

Trade and other payables represent amounts owed to tax authorities and other payables that are due to be paid in the ordinary course of business. Accruals are made for amounts that will fall due for payment in the future as a result of activities in the current year.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

#### 2.8 Functional currency

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency). All financial information presented in pounds sterling has been rounded to the nearest thousand, except where otherwise indicated.

#### 2.9 Dividends

Equity dividends are recognised when they become legally payable. Interim equity dividends are recognised when paid. Final equity dividends are recognised when approved by the shareholders at an annual general meeting.

#### 2.10 Interest payable

Interest payable is charged to the Income Statement over the term of the instrument using the effective interest method so that the amount charged is at a constant rate on the carrying amount. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.



# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 2 Accounting policies (continued)

#### 2.11 Taxation

Tax charges and credits are recognised in the Income Statement, except that if a credit or charge is attributable to an item of income and expense recognised as other comprehensive income or to an item recognised directly in equity the tax is also recognised in other comprehensive income or directly in equity respectively.

The current income tax charge or credit is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the reporting date in the countries where the Company operates and generates income.

Deferred tax balances are recognised in respect of all timing differences that have originated but not reversed by the Balance Sheet date, except that:

- The recognition of deferred tax assets is limited to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits; and
- Any deferred tax balances are reversed if and when all conditions for retaining associated tax allowances have been met.

Deferred tax balances are not recognised in respect of permanent differences except in respect of business combinations, when deferred tax is recognised on the differences between the fair values of assets acquired and the future tax deductions available for them and the differences between the fair values of liabilities acquired and the amount that will be assessed for tax. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the reporting date.

#### 2.12 Reserves

The Company has the following reserves within equity:

##### **Called up share capital**

Called up share capital reserve represents the nominal value of the shares issued.

##### **Retained earnings**

Retained earnings represent cumulative profits and losses, net of any dividends and other adjustments.

#### 2.13 Adoption of new accounting standards

A number of amendments to the standards became effective for the first time in 2020. The updates and amendments have had no impact on the financial statements of the Company.

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 2.14 Assets held for sale and discontinued operations

Assets held for sale are non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than through continuing use. If a component of an entity is disposed of or classified as held for sale its results are classified as a discontinued operation.

Non-current assets and the assets of a disposal group classified as held for sale are presented separately from the other assets in the Balance Sheet. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the Balance Sheet.

Non-current assets (or disposal groups) whose carrying value will be recovered principally through a sale transaction rather than continuing use are classified as held for sale if they are available for immediate sale in their present condition and if the sale is considered highly probable. A sale is deemed highly probable if all the following criteria are met:

- the appropriate level of management is committed to a plan to sell the asset (or disposal group)
- an active programme to locate a buyer and complete the plan has been initiated
- the asset (or disposal group) is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Once an asset (or disposal group) has been classified as held for sale it is recognised at the lower of its carrying value and fair value less costs to sell, except for deferred tax assets, assets arising from employee benefits, financial assets, investment properties measured at fair value and contractual rights under insurance contracts, which are exempt from this requirement and continue to be measured in line with their relevant IFRS requirements.

Impairment losses and subsequent reversals of impairment losses are recognised in the income statement. Reversals of impairment losses are only recognised to the extent they reverse a prior impairment. If an impairment loss is recognised in relation to a disposal group, the impairment would be allocated first to goodwill and then on a pro-rata basis to the non-current assets within the disposal group.

A discontinued operation is a component of the Company that meets one of the following criteria:

- represents a separate major line of business or geographic area of operations
- is part of a single co-ordinated plan to dispose of a separate major line of business or geographic area of operations; or
- is a subsidiary acquired exclusively with a view to resale.

The component is classified as a discontinued operation at the earlier of when it is disposed of or when the component meets the held for sale criteria. When an operation is classified as a discontinued operation its results are presented separately in the income statement. The results of the discontinued operation are also re-presented in the income statement as discontinued in any comparative periods.

### 3 Significant estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the Balance Sheet date and the amounts reported for revenues and expenses during the year. Management have concluded that there are no significant judgements or source of estimation uncertainty as defined by IAS 1 within these financial statements.

### 4 Operating profit

The audit fee of £1,200 (2019: £1,050) and Companies House fees were borne by another Group undertaking.

Other operating income in the year was £nil (2019: £2,100 which relates to money received from ScottishPower Generation Holdings Limited).

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 4 Operating profit (continued)

Operating costs in the year were £nil (2019: £8,725 which relate to the post acquisition costs incurred to integrate Drax Generation Enterprise Limited into the Drax Group).

### 5 Employees

The Company has no employees other than the Directors. The Directors are remunerated for services rendered to the Group and its subsidiary undertakings as a whole and it is not practicable to allocate these amounts to specific subsidiary undertakings. The remuneration received by the Directors in these years, borne by the Company's subsidiary undertaking, is shown in the table below.

The amounts shown in the table below relate to one Director.

One Director received compensation for loss of office totalling £749k which has not been included in the disclosure below. The payments were borne by a subsidiary undertaking of the Company and further details of these payments are detailed on pages 126 and 127 of the Drax Group plc Annual report and accounts.

Amounts receivable under long-term incentive schemes represents the charge arising from share-based payments included in the income statement, determined based on the fair value of the related awards at the date of grant. The Director received awards in the year. The Director exercised options over shares deriving from a long-term incentive plan during the year.

#### Directors remuneration

	2020 £000	2019 £000
Director emoluments	158	566
Aggregate amounts receivable under long-term incentive schemes	-	103
Director pensions contributions - money purchase scheme	18	67
	<b>176</b>	<b>736</b>

### 6 Interest payable

	2020 £000	2019 £000
Interest payable to Group undertakings	1,293	1,464

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 7 Taxation

	2020 £000	2019 £000
<b>Corporation tax</b>		
Current tax on losses for the year	(292)	(1,442)
Adjustment in respect of previous period	165	-
<b>Total current tax credit for the year</b>	<b>(127)</b>	<b>(1,442)</b>
<b>Deferred tax</b>		
Origination and reversal of timing differences	46	-
Adjustments in respect of previous period	(257)	-
<b>Total deferred tax credit for the year</b>	<b>(211)</b>	<b>-</b>
<b>Total tax credit for the year</b>	<b>(338)</b>	<b>(1,442)</b>

#### Factors affecting tax credit for the year

The tax assessed for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	2020 £000	2019 £000
Profit on ordinary activities before tax	68,707	73,144
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	13,054	13,897
<b>Effects of:</b>		
Non-taxable dividends from other Group undertakings	(13,300)	(15,434)
Expenses not deductible for tax purposes	-	95
Adjustment in respect of the previous period	(92)	-
<b>Total tax credit for the year</b>	<b>(338)</b>	<b>(1,442)</b>

#### Factors that may affect future tax charges

The Finance Act 2015 included legislation to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. In addition, the Finance Act 2016 included legislation to reduce the rate of UK corporation tax to 17% from 1 April 2020. Subsequently, on 11 March 2020, the Chancellor announced that this corporate tax rate reduction to 17% will be cancelled and the main rate of corporate tax will remain at 19%. To the extent they are recognised, the closing deferred tax balances are calculated at 19%, the rate which was substantively enacted at the Balance Sheet date.

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 7 Taxation (continued)

A further announcement was made by the Chancellor on 3 March 2021 to increase the main rate of corporation tax to 25% from April 2023. Deferred tax balances will be remeasured reflecting this change at the point it is substantively enacted. The impact of which will be immaterial to these financial statements.

### 8 Fixed asset investments

	Investments in subsidiary companies £000
<b>Cost</b>	
At 31 December 2019	2,363,756
Assets classed as held for sale	(161,216)
At 31 December 2020	<u>2,202,540</u>
<b>Net book value</b>	
At 31 December 2019	2,363,756
At 31 December 2020	<u>2,202,540</u>

#### Post balance sheet event

On 31 January 2021 Drax completed the sale of Drax Generation Enterprise Limited to VPI Generation Limited for cash consideration of £193 million, subject to customary adjustments. Drax Generation Enterprise Limited ceased to be a subsidiary undertaking of the Company from this point.

### Direct subsidiary undertakings

The following are direct subsidiary undertakings of the Company as at 31 December 2020:

Name	Class of shares	Holding	Principal activity
Drax Power Limited	Ordinary	100%	Power generation
Drax Fuel Supply Limited	Ordinary	100%	Non-trading company
Drax Generation Developments Limited	Ordinary	100%	Development company
Drax Generation Enterprise Limited	Ordinary	100%	Power generation
Abergelli Power Limited	Ordinary	100%	Power generation
Millbrook Power Limited	Ordinary	100%	Power generation
Progress Power Limited	Ordinary	100%	Power generation
Hirwaun Power Limited	Ordinary	100%	Power generation
Drax Generation (Selby) Limited	Ordinary	100%	Dormant
Drax Hydro Limited (formerly Domus Energy Limited)	Ordinary	100%	Holding company
Drax River Hydro Limited (formerly Damhead Creek II Limited)	Ordinary	100%	Dormant

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 8 Fixed asset investments (continued)

#### Indirect subsidiary undertakings

The following are indirect subsidiary undertakings of the Company as at 31 December 2020:

Name	Class of shares	Holding	Principal activity
SMW Limited	Ordinary	100%	Fuel supply

All subsidiary undertakings excluding SMW Limited and Drax Generation Enterprise Limited are incorporated in England and Wales. The registered office of these companies is Drax Power Station, Selby, North Yorkshire, YO8 8PH.

SMW Limited and Drax Generation Enterprise Limited are incorporated in Scotland. The registered office of the entities is 13 Queen's Road, Aberdeen, Scotland, AB15 4YL.

All subsidiary undertakings have 31 December year ends.

### 9 Assets held for sale and discontinued operations

On 15 December 2020, the Group announced it had reached agreement for the sale of Drax Generation Enterprise Limited (DGEL), which held the Group's CCGT power stations, to VPI Generation Limited for headline cash consideration of up to £193 million, subject to customary adjustments. This included £29 million of contingent consideration associated with the option to develop a new CCGT at Damhead Creek.

The investment in DGEL is therefore recognised as held for sale at 31 December 2020.

### 10 Trade and other receivables

	2020 £000	2019 £000
Amounts owed by Group undertakings	-	2,111
Prepayments	-	75
	-	2,186

The amounts owed by Group undertakings includes group relief and short-term trading balances which are unsecured, interest free and settled under normal payment terms.

### 11 Trade and other payables

	2020 £000	2019 £000
Amounts owed to Group undertakings	738,533	739,172
Accruals	63	444
	738,596	739,616

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (continued)

### 11 Trade and other payables (continued)

The amounts owed to Group undertakings include short-term trading balances which are unsecured, interest free and settled under normal payment terms. Amounts owed to Group undertakings also includes other funds advanced to the Company and cash pool arrangements which accrue interest at a commercial rate. Cash pool balances are repayable on demand and interest is settled quarterly. Other funds advanced to the Company are settled according to the terms of the agreement, or if the loan is repayable on demand, the date demanded by the lender. If interest is not paid on the due date it is rolled over and capitalised.

### 12 Deferred Tax

Accelerated  
Capital  
Allowances  
£000

At 1 January 2020

Credited to the Income Statement

At 31 December 2020

(211)

(211)

### 13 Share capital

2020  
£000

2019  
£000

Allotted, called up and fully paid

100,000,000 ordinary shares of £1 each

100,000

100,000

### 14 Contingent liability

#### Guarantees

The Company provides security and guarantees to certain members of the Drax Group under certain financing arrangements, which would crystallise in the event of the Drax Group companies defaulting on their outstanding borrowings:

- At 31 December 2020 the outstanding secured borrowings of the Group amounted to £1,085.3 million (2019: £1,267.5 million).
- At 31 December 2020 letters of credit issued under the revolving credit facility, held by Drax Corporate Limited (a Drax Group Company) amounted to £67.9 million (2019: £77.0 million).

Guarantees and security have also been provided in respect of the above borrowings by certain other members of the Drax Group.

The Company also provides security and guarantees in respect of Drax Power Limited's (a Drax Group company) obligations under certain secured trading lines for secured commodity trading and certain FX, inflation and interest rate hedging arrangements that form part of the Drax Group's senior financing arrangements and which would crystallise in the event of Drax Power Limited defaulting on the terms of these arrangements. During the year, the Group opted to close the secured commodity trading line and as

# Drax Smart Generation Holdco Limited

## Notes to the Financial Statements for the year ended 31 December 2020 (*continued*)

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### 14 Contingent liability (*continued*)

such no further trades are able to utilise the line. The final trades utilising the line matured in March 2021. As at 31 December 2020, this value was £0.8 million (2019: £32.7 million).

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

Further information on the Group's borrowings can be found in note 4.3 to the Drax Group plc 2020 Annual report and accounts on pages 184-187.

#### Post balance sheet event

On 18 February 2021, another Group company drew down further amounts of £45.0 million and €95.0 million under its infrastructure term loan facilities agreement. These facilities are secured under the same arrangements as noted above.

### 15 Related party transactions

The Company has taken advantage of the exemption not to disclose transactions with wholly owned entities within the Group headed by Drax Group plc. There are no other transactions to disclose.

### 16 Ultimate Parent undertaking and controlling party

The immediate Parent Company and controlling party is Drax Corporate Limited, a company incorporated in England and Wales.

The 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, Drax, Selby, North Yorkshire, YO8 8PH, or on the Group's website at [www.drax.com](http://www.drax.com).