

First Hydro Finance plc

Directors' report and financial statements for the year ended
31 December 2011

Registered number 3085928



First Hydro Finance plc
Directors' report
For the year ended 31 December 2011

The Directors present their annual report and the audited financial statements of the Company (registered number 3085928) for the year ended 31 December 2011

Principal activities

The principal activity of the Company is to facilitate financing for an investment in First Hydro Company whose principal activity is the generation of electricity

Business review

In 2011 the Company continued to facilitate the financing for the investment in First Hydro Company

As shown in the Company's profit and loss account on page 7, the Company's interest receivable and similar income decreased by £18,000 from the prior year. The major factor affecting this decrease was a decrease in interest rates on short term treasury deposits

Interest payable and similar charges in 2011 were consistent with 2010. The small increase of £4,000 is due to the change in the interest rate charged on loans between the Company and First Hydro Company, and First Hydro Holdings Company, chargeable at the Directors' discretion

The balance sheet on page 8 of the financial statements shows the Company's financial position at the year end. The decrease in shareholder's funds from £8,316,000 to £8,079,000 at end of the year was due to the loss realised during the year of £237,000

The Directors do not recommend payment of a dividend (2010 – £nil)

As disclosed in Note 16, with effect from 3 February 2011, following the reverse acquisition of International Power plc by GDF SUEZ S A on that date, the Directors consider the Company's ultimate holding company to be GDF SUEZ S A

Future developments

The Directors do not expect the current activities of the Company to change in the future

There have been no significant events since the balance sheet date which should be considered for a proper understanding of these financial statements

Principal risks and uncertainties

The key business risks faced by the Company are the volatility in its fellow subsidiary's markets (balancing services and wholesale markets), and plant reliability, affecting the generation of the cash resources required to pay the Company's financing costs

First Hydro Finance plc
Directors' Report (continued)
For the year ended 31 December 2011

Credit Risk

The principle credit risk relates to the £400m loan to First Hydro Holdings Company. The financial strength of First Hydro Holdings Company ultimately depends on the trading performance of First Hydro Company.

Currency Risk

No direct currency risk results from the Company's principle activities.

Interest Rate Risk

The Company has both interest bearing liabilities and assets. Firstly the Company has £400m of bonds issued, on which it pays interest at a fixed rate of 9%. It has also extended a loan to First Hydro Holdings Company of £400m, which has a fixed interest rate of 9%. The Company pays interest at its discretion on loans of £6,630,895 from First Hydro Company and £4,830,113 from First Hydro Holdings Company. The Company invests cash over varying periods of time, but ultimately interest income is subject to changes in interest rates.

Going concern

The Company expects to be able to meet its liabilities as they fall due, as discussed in Note 1, and has therefore prepared these financial statements on the going concern basis.

Employees

Details of the number of employees and related costs can be found in note 6 to the financial statements.

Directors and directors' interests

The following Directors, who served during the year and subsequent to year-end, do not have any beneficial interests in the share capital of the Company.

D Alcock

A Garner Appointed 31 January 2012

I Kajimura Appointed 6 September 2011

H Koga Appointed 31 March 2011 and resigned 6 September 2011

S Pinnell

S Smith Resigned 31 January 2012

T Takahashi Resigned 20 July 2011

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report.

Supplier payment policy

The Company is a financing company and as such does not enter into transactions which would result in trade creditors at the year end.

First Hydro Finance plc
Directors' Report (continued)
For the year ended 31 December 2011

Statement regarding the disclosure of information to auditor

Each of the persons who is a Director at the date of approval of this report confirms 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 he ought to have taken as a Director in order to make himself 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 provision of s418 of the Companies Act 2006

Auditor

Deloitte LLP were appointed as auditor in the year ended 31 December 2011 Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and Deloitte LLP will therefore continue in office

By order of the Board



A Garner
Director

22 February 2012

Registered Office
Senator House,
85 Queen Victoria Street,
London, EC4V 4DP

First Hydro Finance plc
Statement of directors' responsibilities
For the year ended 31 December 2011

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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 they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The Directors confirm to the best of their knowledge that

- the financial statements, prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets and liabilities, financial position and profit of First Hydro Finance plc as at 31 December 2011, and
- the Directors' report includes a true and fair view of the development and performance of the business and the financial position of First Hydro Finance plc, together with a description of its principal risks and uncertainties.

Signed on behalf of the Board of Directors of First Hydro Finance plc on 22 February 2012



A Garner
Director

Independent auditor's report to the members of First Hydro Finance plc

We have audited the financial statements of First Hydro Finance plc for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Balance Sheet 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 (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 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.

Respective responsibilities of directors and auditor

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 and express an opinion on 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 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. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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 2011 and of its loss 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.

Independent auditor's report to the members of First Hydro Finance plc (continued)

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



Robert Knight ACA (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
St Albans
United Kingdom

22 February 2012

First Hydro Finance plc
Profit and loss account
For the year ended 31 December 2011

	Notes	2011 £'000	2010 £'000
Turnover	1e	36	30
Administration expenses		<u>(33)</u>	<u>(28)</u>
Operating profit		3	2
Interest receivable and similar income	2	36,165	36,183
Interest payable and similar charges	3	<u>(36,405)</u>	<u>(36,401)</u>
Loss on ordinary activities before taxation	4	(237)	(216)
Tax on loss on ordinary activities	5	<u>-</u>	<u>-</u>
Loss on ordinary activities after taxation and retained loss for the year	12/13	<u>(237)</u>	<u>(216)</u>

All results were derived from continuing activities

There are no recognised gains and losses in the period other than those included in the profit and loss account presented above. Accordingly no statement of total recognised gains and losses has been shown.

The notes on pages 9 to 16 form part of these financial statements

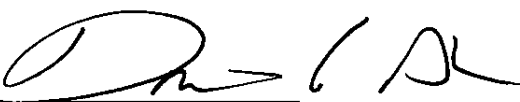
First Hydro Finance plc
Balance Sheet

As at 31 December 2011

	Notes	2011 £'000	2010 £'000
Current assets			
Debtors			
- due within one year	7	15,861	15,878
- due after more than one year	7	400,000	400,000
Investments	8	18,000	18,000
Cash at bank and in hand		967	902
		434,828	434,780
Creditors Amounts falling due within one year	9	(15,288)	(15,003)
Net current assets		419,540	419,777
Total assets less current liabilities		419,540	419,777
Creditors: Amounts falling due after more than one year	10	(411,461)	(411,461)
Net assets		8,079	8,316
Capital and reserves			
Called-up equity share capital	11	13	13
Profit and loss account	12	8,066	8,303
Shareholder's Funds	13	8,079	8,316

The notes on pages 9 to 16 form part of these financial statements

The financial statements on pages 7 to 16 were approved by the Board of Directors on 22 February 2012 and were signed on its behalf by


D Alcock
Director

Company Registration number 3085928

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements

a) Basis of accounting

The financial statements have been prepared under the historical cost convention and in accordance with applicable United Kingdom Law and accounting standards. The Company has adopted all applicable accounting standards effective prior to 31 December 2011 but has not elected for the early adoption of other published, but not effective, reporting standards.

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review which forms part of the Directors' Report. The Directors' report also considers the principal risks and uncertainties facing the Company and its policies and processes for managing these. The Directors have prepared a cash flow forecast which, taking into account all reasonably possible changes in trading performance, shows that the Company should be able to meet its liabilities as they fall due. The Directors therefore have a reasonable expectation that the Company has adequate resources 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.

b) Cash flow statement

The Company has taken advantage of its entitlement under FRS 1 (Revised) 'Cash Flow Statements' not to prepare a cash flow statement as it is a wholly owned subsidiary of a parent company which publishes group accounts which include the Company and are publicly available.

c) Taxation

The charge for taxation is based on the loss for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes.

Group tax relief is not charged or chargeable for relief provided within the FHH (Guernsey) Limited group of companies. Group tax relief provided by entities outside of the FHH (Guernsey) Limited group of companies is charged at the prevailing rate of corporation tax for which tax relief is provided.

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Deferred tax is measured at the weighted 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 substantially enacted by the balance sheet date.

d) Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. Finance costs of debt are recognised in the profit and loss account based on the rates of interest applicable to the debt.

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

1 Accounting policies (continued)

e) Turnover

Turnover represents amounts receivable from the Company's immediate parent company (First Hydro Holdings Company) for management services provided, net of Value Added Tax. Turnover arises wholly in the UK and is recognised as services are provided.

f) Financial instruments

The Company has taken advantage of the exemption contained within FRS 29 'Financial Instrument Disclosures' and has not presented any disclosures required by that standard, as the Company has not adopted FRS 26.

2 Interest receivable and similar income

	2011 £'000	2010 £'000
Interest receivable on loans to other group undertakings	36,000	36,000
Other interest receivable	165	183
	<u>36,165</u>	<u>36,183</u>

3 Interest payable and similar charges

	2011 £'000	2010 £'000
Interest payable on loans from other group undertakings	405	401
Other loans	36,000	36,000
	<u>36,405</u>	<u>36,401</u>

Interest payable on loans from other group undertakings, represents interest payable on a loan of £6,630,896 from First Hydro Company, and a loan of £4,830,113 from First Hydro Holdings Company. These loans are included in Creditors. Amounts falling due after more than one year. Interest is chargeable on the loans at the discretion of the First Hydro Finance plc directors. Interest of £72,983 (2010 - £236,110) to First Hydro Company, and £53,130 (2010 - £171,988) to First Hydro Holdings Company on the loans was paid on the 1st April 2011.

4 Loss on ordinary activities before taxation

Loss on ordinary activities before taxation is stated after charging	2011 £'000	2010 £'000
Auditor's remuneration		
– Fees payable in respect of the audit	<u>18</u>	<u>5</u>

Auditor's remuneration in the year ending 31 December 2010, as disclosed above, was payable to the Company's previous auditor, KPMG. No non-audit fees were payable in the year ended 31 December 2011.

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

5 Tax on loss on ordinary activities

	2011 £'000	2010 £'000
Current taxation		
UK corporation tax on loss in the year at 26.5% (2010 - 28%)	-	-
Tax on loss on ordinary activities	-	-

The tax charge for the year is lower than the standard rate of corporation tax in the UK (26.5%, 2010 - 28%). The reasons are explained below

	2011 £'000	2010 £'000
Loss on ordinary activities before taxation	(237)	(216)
Loss on ordinary activities before taxation multiplied by the standard rate in the UK 26.5% (2010 - 28%)	(63)	(60)
Effects of		
Group relief at nil charge	63	60
Current tax charge for the period	-	-

On 29th March 2011, the Finance (No 3) Bill 2011 was introduced into the House of Commons which substantially enacted the change in the corporation tax rate in the UK to 26% from 1 April 2011. On 19 July 2011 the Finance Act 2011 received Royal Assent which enacted the change in the corporate tax rate in the UK from 25% from 1 April 2012.

6 Staff costs

No remuneration was paid by First Hydro Finance plc to directors during the year in respect of services to the Company (2010 - £nil). The aggregate emoluments of the Directors, in respect of services to the Company, paid by other International Power plc Group entities are as follows

	2011 £'000	2010 £'000
Directors' Emoluments	-	5

Except for the Directors, the Company has no employees (2010 - none)

Pensions

The number of directors who were members of a pension scheme by virtue of their employment was as follows

	2011 Number	2010 Number
Defined Benefit schemes	2	2

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

6 Staff costs (continued)

Share Options

The number of directors who exercised share options in International Power plc

	2011 Number	2010 Number
Number of Directors	-	2

7 Debtors

	2011 £'000	2010 £'000
Amounts falling due within one year		
Amounts owed by immediate parent undertaking	15,831	15,795
Other debtors	30	83
	<u>15,861</u>	<u>15,878</u>
Amounts falling due after more than one year		
Amounts owed by immediate parent undertaking	400,000	400,000
	<u>415,861</u>	<u>415,878</u>

The £400 million owed by the Company's immediate parent undertaking earns interest at a rate of 9% per annum and is repayable in 2021. Interest owed on this balance of £14,967,391 (2010 – £14,967,391) is included within amounts falling due within one year.

8 Current asset investment

	2011 £'000	2010 £'000
Short-term deposits	18,000	18,000

Short-term deposits represent monies maturing in periods greater than 24 hours but less than 6 months. Short term deposits include £18,000,000 (2010 - £18,000,000) of restricted funds under the terms of the Guaranteed Secured Bonds.

9 Creditors Amounts falling due within one year

	2011 £'000	2010 £'000
Interest payable	14,967	14,967
Interest payable to other group undertakings	311	32
Accruals and deferred income	10	4
	<u>15,288</u>	<u>15,003</u>

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

10 Creditors Amounts falling due after more than one year

	2011 £'000	2010 £'000
Amounts owed to other group undertakings	11,461	11,461
Guaranteed Secured Bonds (see below)	400,000	400,000
	<u>411,461</u>	<u>411,461</u>

Amounts owed to other group undertakings are repayable at the discretion of the First Hydro Finance plc directors and are unsecured. The Guaranteed Secured Bonds are due for repayment on 31 July 2021 and carry interest at a rate of 9% per annum, payable semi-annually. They are secured by charges over the assets of the Company, First Hydro Company and First Hydro Holdings Company.

11 Called-up equity share capital

	2011 £'000	2010 £'000
<i>Authorised and allotted</i>		
50,000 ordinary shares of £1 each (2010 – 50,000)	<u>50</u>	<u>50</u>
<i>Called-up and paid-up</i>		
49,998 ordinary shares called-up and not fully paid-up of 25p each and 2 ordinary shares called-up and fully paid-up of 100p each (2010 – 49,998 and 2 respectively)	<u>13</u>	<u>13</u>

12 Reserves

	Profit and loss account	
	2011 £'000	2010 £'000
Balance at beginning of the year	8,303	8,519
Loss for the year	<u>(237)</u>	<u>(216)</u>
Balance at the end of the year	<u>8,066</u>	<u>8,303</u>

13 Reconciliation of movement in equity shareholder's funds

	2011 £'000	2010 £'000
Loss for the year	<u>(237)</u>	<u>(216)</u>
Reduction in shareholder's funds	<u>(237)</u>	<u>(216)</u>
Opening shareholder's funds	8,316	8,532
Closing shareholder's funds	<u>8,079</u>	<u>8,316</u>

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

14 Financial instruments

The Company's financial instruments comprise borrowings, cash and liquid resources and various other assets and liabilities that arise directly from its operations. The main purpose of these financial instruments is to finance the normal operating activities of the Company.

The main risks arising from the Company's financial instruments are interest rate risk and liquidity risk. The Company is not generally exposed to foreign currency risks as the main business is based in the UK and all transactions are denominated in sterling. The Company is also not exposed to market or commodity risks as its main activity is to provide financing to fellow subsidiary undertakings. Active steps have been taken to manage risk by management of the portfolio of the instruments themselves. The portfolio does not include the use of derivative instruments. The Company monitors risk on a regular basis and the directors regularly review the position and take appropriate measures to ensure risks are managed in a controlled manner. The directors agree policies to manage each of these risks and they are summarised below.

Interest rate risk

In line with its policy, the Company finances its operations mainly through a mixture of retained profits and borrowings. At the balance sheet date approximately 97% of the Company's borrowings are fixed rate (2010 – 97%), and 3% of the borrowings are interest free or discretionary (2010 – 3%). Company policy is to ensure that more than 95% of borrowings are at a fixed rate.

Liquidity risk

The Directors use a combination of short term and long term borrowings to ensure continuing liquidity. As of 31 December 2011, approximately 100% of the Company's borrowings were due to mature in more than 5 years (2010 – 100%). Company policy is to ensure that more than 95% of borrowings are long term.

Interest rate risk profile of financial assets and liabilities

Financial assets

At year-end the Company had short term deposits of £18 million (2010 – £18 million) and £967,000 (2010 – £902,000) of cash at the bank. Both the cash and short term deposits receive interest at the prevailing floating rate of bank interest. The short term deposit matures within one month. The fair value of these financial assets is considered by the directors to be equivalent to their carrying value. The Company also had a long term loan of £400 million (2010 – £400 million), repayable in 2021, owed by its immediate parent undertaking. This loan earns interest at a rate of 9% per annum. The fair value, being the market value, of this loan at 31st December 2011 was £463.6 million (2010 – £483.0 million). The fair value has been estimated as equivalent to the quoted market value of the £400 million Bond disclosed within financial liabilities that has identical terms. The carrying amount of these financial assets represents the maximum credit exposure to the company at the reporting date and no amounts were past falling due at the reporting date.

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

14 Financial instruments (continued)

Financial Liabilities

The interest rate profile of the financial liabilities of the Company as at 31 December 2011 (all of which were denominated in sterling) was

	Total £m	Floating rate £m	Fixed rate £m	Non interest bearing £m
2011	411.4	11.4	400	-
2010	411.4	11.4	400	-

Quoted fixed rate financial liabilities relate to £400,000,000 9% Guaranteed Secured Bonds due 2021. The fair value (being the quoted market value) of these Bonds at 31st December 2011 was £463.6 million (2010 – £483.0 million). The amounts owed to other group undertakings of £11.4 million (2010 - £11.4 million) are interest bearing at the discretion of the company's Directors. As the group loans have no determined repayment date and interest is discretionary, the Directors have deemed it impracticable to calculate a fair value.

Maturity of financial liabilities

The maturity profile of the Company's financial liabilities as at 31 December 2011 was in line with the Directors' policy and was as follows

	2011 £m	2010 £m
In one year or less, or on demand	-	-
In more than one year but no more than two years	-	-
In more than two years but not more than five years	-	-
In more than five years	411	411
	411	411

15 Related party transactions

The Company has taken advantage of the exemption available under FRS 8 "Related Party Disclosures" and has not disclosed full details of transactions with other group undertakings as it is a wholly owned subsidiary of First Hydro Holdings Company which prepares publicly available consolidated accounts which include the Company.

16 Ultimate parent company

With effect from 3 February 2011, following the reverse acquisition of International Power plc by GDF SUEZ S A on that date, the Directors consider the Company's ultimate holding company to be GDF SUEZ S A which was incorporated in France and is headquartered in Paris, France. The largest group in which the results of the Company were consolidated for the year ended 31 December 2011 was that headed by GDF SUEZ S A. Copies of its consolidated financial statements are available from its registered office at 1 Place Samuel de Champlain, 92400 Courbevoie, Paris, France.

First Hydro Finance plc
Notes to financial statements (continued)
For the year ended 31 December 2011

16 Ultimate parent company (continued)

For the period from 1 January 2011 to 2 February 2011, the ultimate parent company was International Power plc, incorporated in the United Kingdom. The consolidated financial statements of International Power plc may be obtained by calling or writing to International Power plc, Senator House, 85 Queen Victoria Street, London EC4V 4DP or by sending an email to ipr_relations@iprplc-gdfrsuez.com, telephone +44 (0)20 7320 8600.

The smallest group within which the Company is consolidated is that headed by First Hydro Holdings Company, an unlimited company registered in England and Wales whose principal place of business is at Senator House, 85 Queen Victoria Street, London, EC4V 4DP.