

Drax Pumped Storage Limited

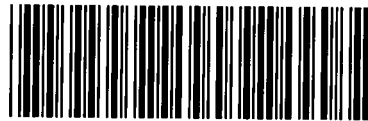
Annual Report and Audited Financial Statements

For the Year Ended

31 December 2021

Company Number 06657336

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COMPANIES HOUSE

Drax Pumped Storage Limited

Officers and Professional Advisers

Directors	Will Gardiner Andy Skelton Paul Sheffield (appointed 27 October 2021) Penny Small (appointed 27 October 2021)
Company secretary	Brett Gladden
Registered number	06657336
Registered office	Drax Power Station Selby North Yorkshire YO8 8PH
Independent auditor	Deloitte LLP Statutory Auditor 2 New Street Square London EC4A 3BZ

Drax Pumped Storage Limited

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Drax Pumped Storage Limited

Strategic Report For the Year Ended 31 December 2021

Introduction

The Directors present their Strategic report for Drax Pumped Storage Limited ("the Company") for the year ended 31 December 2021.

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

The Company was dormant until trading commenced in July 2021.

Prior to 22 June 2021 the Company's immediate parent and only direct shareholder was Drax Research and Innovation Holdco Limited (another Drax Group company) with a holding of 1 ordinary share of £1 in the Company. On 22 June 2021 this shareholding was acquired by another company within the Drax Group, Drax Hydro Limited, alongside the issue of a further 999 ordinary shares of £1 each to Drax Hydro Limited, resulting in a change in the immediate parent company. The new shares were issued for consideration of £39,000k resulting in the recognition of share premium totalling £38,999k.

On 30 June 2021, the Company entered into an agreement with Drax Power Limited (another Drax Group company) for the purchase of the trade and assets of the Drax Power Limited generation businesses at the Cruachan Power Station. Consideration for the sale was equal to the value of the net assets transferred of £36,428k. See note 22 for further details.

This report contains forward looking statements. These statements are made by the Directors in good faith and is based on the information available to them at the time of their approval of this report. Such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward looking information.

Principal activity

The principal activity of the Company following the purchase of the trade and assets of the Drax Power Limited generation businesses at the Cruachan Power Station in July 2021 is the generation of electricity. The Company owns Cruachan Power Station, one of only four pumped storage assets in the United Kingdom ("UK").

Our business model

Our Group's purpose of enabling a zero carbon, lower cost energy future informs the Company's strategy, to be a leading provider of power system stability using our flexible, low-carbon and renewable pumped storage asset. There are several steps in the Company's value chain (generating electricity and the supply of electricity), with each providing incremental value to the business and ultimately maximising that value and delivering our gross margin. Further details are provided on pages 6-9 of the 2021 Drax Group Annual report and accounts. These financial statements may be obtained from Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

Business review

The Company operates a flexible, low-carbon and renewable UK pumped storage asset, which provides renewable, dispatchable power and system support services to the electricity grid. The Company has worked with bodies such as the Association for Renewable Energy and Clean Technology, British Hydropower Association and Scottish Renewables, the collaboration with which has helped to create industry consensus on the key contribution from pumped hydro (and other long duration energy storage technologies) on providing the critical services needed for a zero-carbon electricity grid. In the periods of high power price volatility experienced during the second half of the year, the Company performed well while providing vital support services to the energy system.

Revenue for the year was £52,797k (2020: £nil), with this being the first year the Company has generated revenue after entering an agreement to acquire Cruachan Power Station from another company in the Drax Group on 30 June 2021.

EBITDA (defined as earnings before interest, tax, depreciation (including losses on disposal of assets), and amortisation) for the six months following the acquisition of the Cruachan Power Station of £27,880k (2020: £nil) relates primarily to electricity sales, balancing market revenues and ancillary income.

Net assets were £61,101k as at 31 December 2021 (31 December 2020: £nil). The increase in net assets was due to the acquisition of the Cruachan Power Station.

The Total Recordable Incident Rate (defined as total fatalities, lost time injuries and worse than first aid injuries per 100,000 hours worked) was nil (2020: nil).

Availability (defined as the average percentage of time the units were available for generation excluding planned outages) was 97.0% (2020: 0%). The increase in availability is due to the Company purchasing the Cruachan Power Station 2021.

Summary of key performance indicators

The Company's key financial performance indicators during the period were as follows:

KPI	2021	2020
Total recordable incident rates	Nil	-
Availability	97.0%	-
Revenue	52,797k	-
EBITDA	27,880k	-
Net assets	61,101k	-

Principal risks and uncertainties

The Company has a comprehensive structure of governance controls in place to manage risks. Policies have been established in key areas of the business such as production and health and safety to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Drax Group plc Board.

The assessment of the most significant risks and uncertainties which could impact long term performance is detailed below. These risks are not set out in any order of priority and they do not comprise all the risks and uncertainties the Company faces.

The most significant risks and uncertainties which could impact long term performance of the Group are detailed on pages 76 to 91 of the 2021 Drax Group plc Annual report and accounts.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

POLITICAL AND REGULATORY RISK

Context

The Company remains alert to changes in Government policy at UK and EU level. The energy sector is subject to detailed legislation and regulation that is frequently changing as the economic and industrial trends towards decarbonising and decentralising become more exacting. In addition, the wider regulatory and compliance environment applicable to businesses is also increasing with an emphasis on transparency and accountability.

Risk

Changes to UK policy, regulations or tariffs may increase the costs to operate, reduce operational efficiency and affect the Company's ability to realise its strategy, which may adversely affect the Company's financial and operational performance, results and cash flows. Examples include reform to the legal framework following Brexit; data privacy regulation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including access and impacts on liquidity; consumer service and affordability requirements.

Mitigations

- Engaging with politicians across the political spectrum and Government officials, to understand and influence perception, and communicate the Company's socio-economic value in supporting the UK's ambition to achieve net zero by 2050.
- Maintaining regulatory and compliance control frameworks to mitigate the risk of non-compliance, covering: risk assessment; policy and guidance development; robust process; awareness raising; training; audit; and continual improvement.

Changes during 2021

- The financial impact on government funding caused by Covid-19 over the immediate and longer term will result in a reassessment of investment priorities for this and future administrations both in the UK and elsewhere, which could affect the Drax business model and financial prospects.
- In the UK, Ofgem is reviewing the fundamental design of the power market, in particular system balancing costs as a result of the change in demand-levels during the Covid-19 pandemic (which offers an insight to future UK supply/ demand balance) and general efficiency and effectiveness of the market with an increasing proportion of zero marginal cost generation.
- COP26 and the role of the UK Government in acting as Chair positively impacted global commitments to delivering on decarbonisation.

CLIMATE CHANGE

Context

The resilience of the Company's business strategy and operations to both physical and transitional climate risks is important to the functioning and long-term value creation of the Company. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rise. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low carbon economy.

Whilst the physical impact of climate change may pose challenges to operations (which even where the Company seeks to mitigate could still have a material impact), the transitional impacts include a number of aspects (such as the impetus to reduce carbon emissions and the introduction of better carbon neutral ways to generate power), which directly align with the Company's strategy.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

Risk

- Physical impacts of climate change to the Company's operations, for example increased incidence of extreme weather events.
- Policy risks related to the transition to a low carbon economy include UK Government changes in climate policy that may impact generation.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected.
- Reputation and market risks related to the transition to a low carbon economy include increased activity by environmental non-governmental organisations, the potential for reduced investor and customer confidence, delays to the Company's strategy (for example more stringent qualifying regimes or approval processes linked to developing existing or new facilities) and challenges with employee recruitment and retention.

Mitigations

- Strategic objectives that are aligned to global renewable energy and decarbonisation agendas.
- Carbon negative ambition and Climate Policy, underpinning a business strategy consistent with UK Government and international climate change policy.
- Engagement with stakeholders and close liaison with UK Government on future policies.

Changes during 2021

- Public awareness of the impacts of climate change has increased, highlighting the global imperative to invest in technology which will support the achievement of carbon targets.
- The economic recovery plans resulting from Covid-19 indicate the UK Government will use the opportunity to bring forward policy and actions that help drive corporate focus on sustainability and climate change action.

PLANT OPERATING RISK

Context

The reliability and safe operation of the Company's plant is critical to its ability to create value and generate an income stream for the Company and to meet the requirement to run flexibly and promptly to respond to the demands of the electricity system. The Plant Operational risk profile can be affected by several risk factors but of particular importance to the Company currently are, the safe management of ageing assets (Cruachan dam was built approximately 50 years ago), building in inherent reliability and safety by design for new installations, management of change, and operating equipment within intended design limits and parameters. The Company's production facility is highly complex and requires careful management and identification, control, and mitigation of risk to operate safely throughout the full life-cycle (design through to decommissioning).

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

Risk

As plant ages, the operational reliability and integrity is expected to reduce. Single or multi point failures of plant, and safety incidents arising, could result in forced or unforeseen outages in the Company's plant.

When installing new facilities and equipment at the plant, if inadequately conceived, there is a risk that they may not be compliant with legislation and best practices which could lead to future plant operational risks, plant not being capable of operating or the need for corrective actions which could mean the costs to operate increase.

Brexit and Covid-19 have resulted in longer lead times for the delivery of materials, goods, and services. This can impact the day-to-day operation of plants or cause delay in the refurbishment of existing assets. In addition, the Company may experience increased costs associated with installation of plant or equipment and operation of the Company's site.

Covid-19 has required increased safety measures and protocols at the Company's operating site in order to ensure that our employees and contractors remain safe whilst working on the Company's site.

Mitigations

- A comprehensive plant investment and maintenance programme, that is risk-based and reflects the challenges of operating complex equipment, supported by an experienced engineering team.
- Ensuring plant is designed to recognised standards and ensures legislative compliance to prevent and control major hazards.
- Maintaining robust management systems, designed to identify and mitigate risk and manage process safety across operating assets.
- Maintaining insurance in place to cover losses from plant failure where possible
- We have measures in place to manage the on-going risks of Covid-19 such as thermal screening, mass testing, social distancing, and enhanced hygiene protocols as appropriate and as required by prevailing local government guidance.

In addition to the significant commercial and operational risks above, the Company is exposed to the following financial risks:

Commodity price risk

The Company is exposed to the movements in gas and power prices. Adverse movements will adversely impact the profitability of the plant. The Company aims to optimise the efficiency of the plant to minimise utility cost per unit of production.

Liquidity risk

The Company participates in the Group's centralised treasury arrangements. The Group treasury function is responsible for liquidity, funding and settlement management under policies approved by the Group's Board of Directors. Liquidity needs are monitored using regular forecasting of operational cash flows and financing commitments.

Credit risk

The Company's exposure to credit risk is limited to the carrying amount of financial assets recognised at the balance sheet date (namely trade receivables). Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Management Committee.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

Capital risk

The Company depends, in part, on the ability of the Group to continue as a going concern. The Group manages its capital to ensure it is able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance. Since the publication of the 2021 Drax Group Annual report and accounts there is no indication of increased risk to the going concern of the Group or the Company. The capital structure of the Company consists of shareholders' equity, comprising called up equity share capital, share premium and retained earnings.

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 is responsible for ensuring effective engagement with stakeholders and recognises that decisions taken today will shape both the longer-term performance of the business and its impact on our various stakeholders. This consideration enables the Company to have a positive impact on the environment, our communities and wider society, delivering sustainable value creation.

Examples of how the Board have had regard to the matters set out in Section 172, to the extent relevant to the Company, are set out below. Comprehensive details in respect of stakeholders identified across the Group and how we engage with them and have regard to their interests, can be found from page 34 to 41 in the Drax Group plc 2021 Annual Report and Accounts.

The likely consequences of any decision in the long term

Our purpose is to enable a zero carbon, lower cost energy future. With multi-year time horizons for many of our strategic decisions, we recognise that those decisions can have an impact far beyond our business and into the future. Our decisions support the Group's long-term strategy: to be a global leader in sustainable biomass pellets; to be a global leader in negative emissions; and to be a UK leader in dispatchable, renewable generation.

The need to foster the Company's business relationships

Suppliers

Our Procurement, Business Ethics, and Sustainability functions engage directly with suppliers around key issues. This is to ensure our ethics, values and Supplier Code are effectively incorporated into and upheld throughout our supply chains. We seek the views of suppliers and contractors to collaborate on improvements in standards and meeting our (and their) obligations under law and regulations in keeping with our values.

Regulators and network operators

Engagement with Ofgem, BEIS and the Electricity System Operator allows us to promote the delivery of a secure, reliable energy system offering best value for consumers. Engagement with Ofgem, environmental agencies and the ICO enables us to promote best practice and ensure we remain compliant with latest guidance.

The impact of the Company's operations on the community and the environment

Tackling climate change is at the heart of our purpose, and our strategic objectives are aligned to global renewable energy and decarbonisation agendas. In June 2021, we announced plans to pursue the expansion of Cruachan Power Station to provide further hydro long duration energy storage – a critical service needed for a zero-carbon electricity grid.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2021

It is very important that the local community is informed and supportive of Cruachan's expansion. Over the summer and autumn of 2021, we put in place a rigorous engagement programme to ensure that the views of the local community were heard and taken into account. We held a virtual consultation event in July 2021 which was followed up by face-to-face meetings at public consultation events in November and December 2021, which we plan to repeat in 2022. Given the long-term nature of the project and its construction, we are committed to ensuring that local authorities, stakeholders and the community continue to be consulted and regularly informed of progress and plans. Also, given that Cruachan is located next to some of the UK's most precious and protected natural habitats, we are working with environmental charities such as RSPB Scotland to consider how we can support local action for restoring nature. To read more about our plans for Cruachan, and our positive social impact across the Group more widely, see pages 36, 38, 40 and 56 in the Drax Group plc 2021 Annual Report and Accounts.

The desirability of the Company maintaining a reputation for high standards of business conduct

At Drax, we are committed to conducting business ethically, with honesty and integrity, and in compliance with all relevant laws and regulations. We do not tolerate any form of bribery, corruption, human rights abuse, or other unethical business conduct.

Our business ethics compliance framework identifies the behaviours expected from colleagues on a broad range of topics. In 2021, we deployed new annual refresher eLearning across which included data protection and ethics. For more details on how the business ethics programme is managed across the Group, see pages 61 to 63 of the Drax Group plc 2021 Annual Report and Accounts.

The need to act fairly as between members of the Company

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.

Engagement with shareholders of the Group allows us to understand the concerns and priorities of current and prospective investors, in areas such as ESG; climate change; executive pay; dividends; longer-term capital allocation policy; and strategy, which are taken into account in our decision making.

This report was approved by the Board on 30 June 2022 and signed on its behalf.



Andy Skelton
Director

Drax Pumped Storage Limited

Directors' Report For the Year Ended 31 December 2021

The Directors present their report and the audited financial statements of Drax Pumped Storage Limited (the "Company") for the year ended 31 December 2021.

Results and dividends

The profit for the year, after taxation, amounted to £22,041k (2020: £nil).

During the year the Company did not pay or receive any dividends and the Directors do not recommend the payment of a final dividend for the current year (2020: £nil).

Post balance sheet events

There have been no significant post balance sheet events to report.

Matters covered in the strategic report

The Company's business activities, together with the factors likely to affect future developments, performance and position including principal risks and uncertainties are set out in the Strategic Report above. In addition, a statement on the Company's engagement with stakeholders is also included in the Strategic Report within the S172 Statement.

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, including sensitivity analysis on downside scenarios. 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.

At 31 December 2021, the Company had net current assets of £28,849k. The Company is expected to remain profitable for the 12-month period following the date that these financial statements were authorised for issue. 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.

Drax Pumped Storage Limited

Directors' Report (continued) For the Year Ended 31 December 2021

Directors

The Directors who served during the year and subsequently were:

Will Gardiner
Andy Skelton
Paul Sheffield (appointed 27 October 2021)
Penny Small (appointed 27 October 2021)

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.

Carbon emissions

The Company has taken the exemption from disclosing a Streamlined Energy Carbon Reporting (SECR) report required under part 7A to schedule 7 of SI 2008/410 of the Companies Act 2006 as their figures are included within their ultimate parent Company's disclosure. The Group carbon emissions report can be found on pages 50-52 of the 2021 Annual report and accounts of Drax Group plc.

Disabled employees and equal opportunities

It is the Company's policy to give full and fair consideration to suitable applications for employment from people with disabilities having regard to their particular aptitudes and abilities. In the event of a member of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training and rehabilitation is provided. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

The Company is committed to a policy of equal opportunities and ensures that country of origin, colour, gender, religious belief, sexual orientation, age or disability are not barriers to working at the Company.

The Company provides a wide range of development opportunities to help employees develop the necessary skills, knowledge and experience to realise their performance potential.

Directors' responsibilities statement

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), 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;
- 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.

Drax Pumped Storage Limited

Directors' Report (continued) For the Year Ended 31 December 2021

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.

Auditor and the disclosure of information to the auditor

Each of the persons who is a Director 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 make himself/herself 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 section 418 of the Companies Act 2006.

Deloitte LLP have indicated their willingness to be reappointed for another term and appropriate arrangements have been put in place for them to be deemed reappointed as auditor in accordance with Section 485 of the Companies Act 2006.

Approved by the board on 30 June 2022 and signed on its behalf by



Andy Skelton
Director

Drax Pumped Storage Limited

Independent Auditor's Report to the Members of Drax Pumped Storage Limited

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Drax Pumped Storage Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2021 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 24.

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 Pumped Storage Limited

Independent Auditor's Report to the Members of Drax Pumped Storage Limited (continued)

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. 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 such as tax, pensions and IT 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 external 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 Pumped Storage Limited

Independent Auditor's Report to the Members of Drax Pumped Storage Limited (continued)

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.



Makhan Chahal FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

30 June 2022

Drax Pumped Storage Limited

Income Statement For the Year Ended 31 December 2021

	Notes	2021 £000	2020 £000
Revenue	4	52,797	-
Cost of sales		(20,971)	-
Gross profit		31,826	-
Administrative expenses		(3,946)	-
EBITDA		27,880	-
Depreciation		(638)	-
Operating Profit	5	27,242	-
Interest payable and similar expenses	8	(7)	-
Profit before tax		27,235	-
Tax charge on profit	9	(5,194)	-
Profit for the financial year		22,041	-

EBITDA is defined as profit before interest, tax, depreciation (including losses on disposal of assets) and amortisation. Comparative figures are all £nil due to the Company being dormant throughout the 2020 financial year.

There is no other comprehensive income for the current or preceding financial year and thus no statement of comprehensive income is presented.

The notes on pages 17 to 33 form part of these financial statements.

Drax Pumped Storage Limited

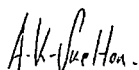
Balance Sheet As at 31 December 2021

Company number 06657336

	Notes	2021 £000	2020 £000
Non-current assets			
Property, plant and equipment	10	32,795	-
Right-of-use assets	11	113	-
		<u>32,908</u>	<u>-</u>
Current assets			
Inventories	12	175	-
Trade and other receivables and contract-related assets	13	30,957	-
Cash and cash equivalents		1	-
		<u>31,133</u>	<u>-</u>
Current liabilities			
Trade and other payables	14	(2,207)	-
Lease liabilities	11	(77)	-
		<u>(2,284)</u>	<u>-</u>
Net current assets		<u>28,849</u>	<u>-</u>
Total assets less current liabilities		<u>61,757</u>	<u>-</u>
Non-current liabilities			
Lease liabilities	11	(37)	-
Deferred tax	15	(619)	-
		<u>(656)</u>	<u>-</u>
Net assets		<u>61,101</u>	<u>-</u>
Capital and reserves			
Called up share capital	16	1	-
Share premium	17	38,999	-
Retained earnings		22,101	-
Total equity		<u>61,101</u>	<u>-</u>

Comparative figures are all £nil due to the Company being dormant throughout the 2020 financial year.

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 June 2022.



Andy Skelton
Director

The notes on pages 17 to 33 form part of these financial statements.

Drax Pumped Storage Limited

Statement of Changes in Equity For the Year Ended 31 December 2021

	Called up share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2020	-	-	-	-
Result for the year	-	-	-	-
Total comprehensive income for the year	-	-	-	-
At 31 December 2020	-	-	-	-
Profit for the year	-	-	22,041	22,041
Total comprehensive income for the year	-	-	22,041	22,041
Issue of share capital (note 16/17)	1	38,999	-	39,000
Movement in equity associated with share-based payments (note 19)	-	-	60	60
Total transactions with owners	1	38,999	60	39,060
At 31 December 2021	1	38,999	22,101	61,101

The notes on pages 17 to 33 form part of these financial statements.

Drax Pumped Storage Limited

Notes to the Financial Statements For the Year Ended 31 December 2021

1 General information

Drax Pumped Storage Limited ("the Company") 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' ("FRS 101") and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting judgements and key sources of estimation uncertainty. It also requires management to exercise judgement in applying the Company's accounting policies (see note 3).

The presentation and functional currency used is sterling. Amounts have been presented to the nearest thousand ("£000") unless stated otherwise.

2.2 Financial reporting standard 101 – reduced disclosure exemptions

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

- the requirements of paragraphs 45(b) and 46-52 of IFRS 2 Share-based payments
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of paragraph 73(e) of IAS 16 Property, Plant and Equipment
- the requirements of paragraphs 10(d), 16, 38A, 38B, 38C, 38D, 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
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases

This information is included in the consolidated financial statements of Drax Group plc as at 31 December 2021 and these financial statements may be obtained from Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

2 Accounting policies (continued)

2.3 Adoption of new accounting standards

A number of new updates and amendments to the standards became effective for the first time in 2021. These updates and amendments have not had a material impact on the financial statements of the Company.

The Company will monitor emerging developments and interpretations of the new standards.

2.4 Going concern

The Company's business activities, together with the factors likely to affect its future development and position, are set out in the Strategic Report.

At 31 December 2021, the Company had net current assets of £28,849k (2020: £nil). This is primarily due to amounts owed from Group undertakings. The Company is expected to remain profitable for the 12-month period following the date that these financial statements were authorised for issue. The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, and noting the written confirmation of Group support, the Directors continue to adopt the going concern basis in preparing the financial statements.

2.5 Revenue

Revenue represents amounts receivable for goods or services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes.

Revenues from the sale of electricity are measured based upon output delivered at rates specified under contract terms or prevailing market rates as applicable.

Ancillary services revenues from the provision of services to National Grid are recognised by reference to the stage of completion of the contractual performance obligations. The majority of such contracts are for the delivery of a service either continually or on an ad-hoc basis over a period of time and thus stage of completion is calculated by reference to the amount of the contract term that has elapsed. Depending on the contract terms this approach may require judgement in estimating probable future outcomes.

2.6 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 of the instrument. Issue costs are initially recognised as a reduction in the proceeds of the associated capital instrument.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

2 Accounting policies (continued)

2.7 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the Income Statement, unless the charge is attributable to an item of income or expense recognised as other comprehensive income or an item that is recognised directly in equity, then the associated tax is recognised in other comprehensive income or directly in equity respectively.

The current income tax charge is calculated on the basis of tax rates and laws that have been enacted or substantively enacted by the balance sheet 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 balance sheet date.

2.8 Property, plant and equipment

Property, plant and equipment are initially measured at cost. Cost comprises the purchase price (after deducting trade discounts and rebates), any directly attributable costs of bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management, and the estimate of the present value of the costs of dismantling and removing the item and restoring the site. Property, plant and equipment are stated at cost less accumulated depreciation and any provision for impairment in value.

Assets constructed as part of long-term development projects and in the course of construction are not depreciated until they are ready to use in the way intended.

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the useful economic lives (UELs) of the assets from the date of acquisition or when the asset is brought into use. The table below shows the average useful life of an asset in the main categories of assets we owned, in years:

	Average UEL Remaining (years)
Freehold buildings	45
Plant, machinery, fixtures and fittings	41
Plant spare parts	45

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

2 Accounting policies (continued)

2.8 Property, plant and equipment (continued)

Within the plant and equipment categories shorter lives are attributed to components that are overhauled and upgraded as part of rolling outage cycles.

Plant spare parts are depreciated over the remaining useful life of the power station.

Costs relating to major inspections, overhauls and upgrades to the power station are included in the asset's carrying amount or recognised as a separate asset, as appropriate, if the recognition criteria are met; namely, when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance costs are expensed as incurred.

Estimated useful lives and residual values are reviewed annually, taking into account regulatory change and commercial and technological obsolescence as well as normal wear and tear. Residual values are based on prices prevailing at each balance sheet date. Any changes are applied prospectively.

2.9 Impairment of fixed assets

Assets that are subject to depreciation are assessed at each balance sheet date to determine whether there is any indication that the assets are impaired. Where there is any indication that an asset may be impaired, the carrying value of the asset (or cash generating unit (CGU) to which the asset has been allocated) is tested for impairment. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Non-financial assets that have been previously impaired are reviewed at each balance sheet date to assess whether there is any indication that the impairment losses recognised in prior periods may no longer exist or may have decreased.

2.10 Leases

IFRS 16 determines a control model to distinguish between lease agreements and service contracts on the basis of whether the use of an identified asset is controlled by the Company. If the Company is deemed to have control of an identified asset, then a lease is recognised on the balance sheet. A right-of-use asset and a corresponding lease liability are recognised.

The right-of-use asset is initially measured at cost comprising the amount of the initial measurement of the lease liability, any lease payments made at or before the commencement date less any lease incentives received, any direct cost and restoration costs. It is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

The lease liability is initially measured at the present value of the future lease payments discounted using the discount rate that is implicit in the lease. If this discount rate cannot be determined from the agreement, the liability is discounted using an incremental borrowing rate. The liability is subsequently adjusted for interest, repayments and other modifications. Lease modifications are accounted for as a separate lease where the scope of the lease increases through the right to use one or more underlying assets and where the consideration of the lease increases by an amount that is equivalent to the standalone price of the increase in scope. Where a modification decreases the scope of the lease, the carrying amount of the right-of-use asset is adjusted and a gain or loss is recognised in proportion to the decrease in scope of the lease. All other modifications are accounted for as a reassessment of the lease liability with a corresponding adjustment to the right-of-use asset.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

2 Accounting policies (continued)

2.10 Leases (continued)

Lease extension or termination options are included within the lease term when the Company as the lessee has the discretion to exercise the option and where it is probable that the option will be exercised.

Leases with a term shorter than 12 months or where the identified asset has a value below £3,500 are expensed to the Income Statement on a straight-line basis over the adoption of the agreement.

2.11 Inventories

Inventories are valued at the lower of the weighted average cost to purchase and net realisable value. The cost of inventories includes all direct costs and overheads incurred in bringing the inventory to its present location and condition, including the purchase price and other taxes.

2.12 Trade and other receivables and contract-related assets

Trade and other receivables are initially measured at the transaction price. The company holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate method. A provision for impairment of trade receivables is measured at an amount equal to the lifetime expected credit loss.

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Company recognises a contract asset for any services provided where payment is not yet due. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period.

2.13 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions which can be withdrawn and is repayable without penalty on notice of not more than 24 hours.

2.14 Trade and other payables

Trade and other payables represent amounts owed to suppliers (for trade purchases and ongoing costs), tax authorities and other creditors 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 initially recognised at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Reserves

The Company's capital and reserves are as follows:

Share capital

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

Share premium

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued.

Retained earnings

Retained earnings represents cumulative profits or losses, net of dividends paid and other adjustments.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

2 Accounting policies (continued)

2.16 Foreign Currency

Foreign currency transactions are translated into the functional currency using the spot exchange rates at the dates of the transactions.

At each reporting period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction.

2.17 Share-Based Payments

The ultimate parent company issues equity settled share based payments (the cost of which is then recharged back to the Company at year end), to certain employees, which are measured at fair value (excluding the effect of non-market based vesting conditions) at the date of grant and expensed on a straight line basis over the relevant vesting period, based on an estimate of the shares that will ultimately vest and adjusted for the effect of non-market based vesting conditions, which are revised at each balance sheet date.

2.18 Pensions

Defined contribution

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Income Statement when they fall due. Amounts not paid are shown in accruals as a liability in the balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Defined benefit

The Company's parent, Drax Hydro Limited, is the sponsoring employer of the Drax 2019 defined benefit pension scheme in which this Company is a participant. As there is no formalised policy for the allocation of the defined benefit cost between the companies, the full defined benefit cost is accounted for in Drax Hydro Limited, with the contributions payable by the Company expensed to the Income Statement as they become payable. Details of the Drax 2019 scheme can be found in the financial statements of Drax Hydro Limited whose registered office is Drax Power Station, Selby, North Yorkshire, United Kingdom, YO8 8PH.

3 Judgements in applying accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires judgement to be applied in forming the Company's accounting policies. It also requires the use of estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. Actual results may subsequently differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis, with revisions recognised in the period in which the estimates are revised and in any future periods affected.

Management have concluded that there are no significant judgements or key sources of estimation uncertainty as defined by IAS 1 within these financial statements.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

4 Revenue

An analysis of the Company's revenue is as follows:

	2021 £000	2020 £000
Electricity sales	24,087	-
Balancing market revenues	16,001	-
Ancillary revenues and other income	12,709	-
	<u>52,797</u>	<u>-</u>

Revenue primarily comprises sales of electricity generated by the Company to the electricity wholesale market in Great Britain, alongside ancillary services. As such, the Company has only one business segment and one geographical segment.

Ancillary revenues are from services provided to National Grid for maintaining secure electricity supplies within acceptable limits. They primarily relate to spin generation income, reserve income, frequency response income, black start income, constraint payments and reactive power income.

5 Operating profit

Operating profit for the year is stated after charging:

	Note	2021 £000	2020 £000
Depreciation of property, plant and equipment	10	599	-
Depreciation of right-of-use assets	11	39	-
Staff costs	6	1,261	-
Short term and low value lease expenses		<u>1</u>	<u>-</u>

Fees payable to Deloitte LLP for the audit of the financial statements were £2,500 (2020: £nil) and borne by another Group company.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

6 Employees

Staff costs were as follows:

Note	Note	2021 £000	2020 £000
Wages and salaries		837	-
Social security costs		87	-
Pension costs	20	277	-
Share-based payments	19	60	-
		<u>1,261</u>	<u>-</u>

The average monthly number of employees, including the Directors, during the year was as follows:

	2021 (number)	2020 (number)
Operations	17	-
	<u>17</u>	<u>-</u>

7 Directors' remuneration

The Directors are remunerated for services rendered to the Group and its subsidiary undertaking as a whole and it is not practicable to allocate these amounts to specific subsidiary undertakings. No Directors' remuneration is borne by this Company.

8 Interest payable

	2021 £000	2020 £000
Interest payable to Group companies	5	-
Interest payable on lease liabilities	2	-
	<u>7</u>	<u>-</u>

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

9 Taxation

	2021 £000	2020 £000
Corporation tax		
Current tax on profit for the year	4,575	-
Total current tax charge for the year	4,575	-
Deferred tax		
Current period	619	-
Total deferred tax charge for the year	619	-
Total tax charge for the year	5,194	-

The tax charge on profit assessed for the year is higher than the standard rate of Corporation Tax in the UK of 19%. The differences are explained below:

	2021 £000	2020 £000
Profit on ordinary activities before tax	27,235	-
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	5,175	-
Super-deduction ⁽¹⁾	(54)	-
Expenses not deductible for tax purposes	18	-
Impact of tax rate changes	55	-
Total tax charge for the year	5,194	-

(1) The super-deduction is an accelerated capital allowance (tax depreciation) incentive introduced by the UK Government in Finance Bill 2021. It enables a company to claim a 130% tax deduction for the cost of qualifying plant and machinery incurred between April 2021 to March 2023.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

9 Taxation (continued)

Factors that may affect future tax charges

In the March 2020 Budget, it was announced that the main rate of UK corporation tax will not reduce to 17% from 1 April 2020 and the Corporation Tax Rate will be held at 19%. The Provisional Collection of Taxes Act was used to substantively enact the revised 19% tax rate on 17 March 2020 and accordingly the deferred tax balances at 31 December 2020 were calculated at 19%.

In the Spring Budget 2021, the Government announced an increase in the corporation tax rate from 19% to 25% from 1 April 2023. The rate was substantively enacted on 24 May 2021 and as such the deferred tax balances have been calculated in full on temporary differences under the liability method using the rate expected to apply at the time of the reversal of the balance. As such, the deferred tax assets and liabilities have been calculated using a mixture of 19% and 25% (2020: 19%) as appropriate.

To the extent they are recognised, the closing deferred tax balances are calculated at the average rate over which the balance is expected to unwind.

10 Property, plant and equipment

	Freehold property	Plant, machinery, fixtures and fittings	Plant spare parts	Total
	£000s	£000s	£000s	£000s
Cost				
At 1 January 2020 and 2021	-	-	-	-
Additions	-	947	4	951
Acquired as part of a business combination (note 22)	4,035	28,315	98	32,448
Issues to maintenance projects	-	-	(5)	(5)
At 31 December 2021	4,035	29,262	97	33,394
Depreciation				
At 1 January 2020 and 2021	-	-	-	-
Charge for the year	43	555	1	599
At 31 December 2021	43	555	1	599
Net book value				
At 31 December 2021	3,992	28,707	96	32,795
At 31 December 2020	-	-	-	-

Assets in the course of construction amounted to £1,849k at 31 December 2021 (2020: £nil) and is included within plant, machinery, fixtures and fittings.

There were no borrowing costs capitalised in the year (2020: £nil).

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

11 Leases

Right-of-use assets

	Vehicles £000
Cost and carrying amount:	
At 1 January 2020 and 2021	-
Additions at cost	152
At 31 December 2021	<u>152</u>
Accumulated depreciation:	
At 1 January 2020 and 2021	-
Charge for the year	39
At 31 December 2021	<u>39</u>
Net book value	
At 31 December 2021	<u>113</u>
At 31 December 2020	<u>-</u>

Lease liabilities

	Vehicles £000
Carrying amount:	
At 1 January 2020 and 2021	-
Additions	152
Interest charged to the Income Statement	2
Payments	(40)
At 31 December 2021	<u>114</u>
Current portion	77
Non-current portion	<u>37</u>

Lease additions in the year relate to pool cars for use by on-site staff. In addition to the payments disclosed above, the Company also made total payments of £1k (2020: £nil) during the year in relation to short-term and low value leases.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

12 Inventories

	2021 £000	2020 £000
Consumables	175	-
	<u>175</u>	<u>-</u>

13 Trade and other receivables and contract-related assets

	2021 £000	2020 £000
Trade receivables	14	-
Amounts owed by Group undertakings	23,009	-
Prepayments and accrued income	5,653	-
Contract assets	2,218	-
Other receivables	63	-
Total	<u><u>30,957</u></u>	<u><u>-</u></u>

The amounts owed by Group undertakings includes short-term trading balances which are unsecured, interest free and settled under normal payment terms. Amounts owed by Group undertakings also includes cash pool arrangements which accrue interest at a commercial rate. Cash pool balances are repayable on demand and interest is settled quarterly.

Contract assets relate to amounts for goods or services provided under customer contracts, where the entitlement to consideration is contingent on something other than the passage of time. The Company has recognised a contract asset for any work performed where payment is not yet due. Any amount previously recognised as a contract asset is reclassified to trade receivables at the point at which it is invoiced to the customer, usually in the following financial period. The reconciliation from opening to closing contract assets is as follows:

	2021 £000	2020 £000
Balance at 1 January	-	-
Increases in the period as a result of new contracts	2,218	-
Balance at 31 December	<u><u>2,218</u></u>	<u><u>-</u></u>

The Company does not consider there to be any requirement for any provisions for expected credit losses. The Company considers the risk of default to be extremely low and the calculated provision is negligible. This is supported by strong historic collection rates and timely receipts. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and future prospects reflecting our understanding of our customer base. Specific balances are provided against where default events have occurred. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted or the customer is in administration.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

14 Trade and other payables

	2021 £000	2020 £000
Trade payables	758	-
Amounts owed to Group undertakings	255	-
Other tax and social security	472	-
Accruals	722	-
Total	2,207	-

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 which accrue interest at a commercial rate. Other funds advanced to the Company are settled according to the terms of the agreement where applicable, otherwise they are repayable on demand. If interest is not paid on the due date it is rolled over and capitalised.

15 Deferred tax

	Accelerated capital allowances £000
At 1 January 2021	-
Charged to the Income Statement	619
At 31 December 2021	619

16 Share capital

	2021 £000	2020 £000
Authorised, allotted, called up and fully paid		
1000 (2020: 1) ordinary shares of £1 each	1	-

On 22 June 2021 the Company issued additional share capital of 999 ordinary shares of £1 each. The new shares were issued for consideration of £39,000k resulting in the recognition of share premium totalling £38,999k. Refer to the Strategic Report on page 1 for further details.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

17 Share premium

	2021 £000	2020 £000
At 1 January	-	-
Issue of share capital	38,999	-
At 31 December	38,999	-

The share premium account reflects amounts received in respect of issued share capital that exceeds the nominal value of the shares issued. Movements in the share premium reserve reflect amounts received on the issue of shares to other Group companies.

On 22 June 2021 the Company issued additional share capital of 999 ordinary shares of £1 each. The new shares were issued for consideration of £39,000k resulting in the recognition of share premium totalling £38,999k. Refer to the Strategic Report on page 1 for further details.

18 Contingent liabilities

Guarantees

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

- At 31 December 2021 the outstanding secured borrowings of the Group amounted to £1,376.2 million (2020: £1,085.3 million).
- At 31 December 2021 letters of credit issued under the revolving credit facility, held by Drax Corporate Limited (a Drax Group Company) amounted to £74.4 million (2020: £67.9 million).

The Company also provides security and guarantees in respect of Drax Power Limited's (a Group Company) secured trading lines for certain FX, inflation and interest rate hedging arrangements, which allow it to transact prescribed volumes of trades with certain banks without the requirement to post collateral. These secured trading lines form part of the Drax Group's senior financing arrangements and would crystallise in the event of Drax Power Limited defaulting on the terms of these arrangements.

The Company also provided security and guarantees in respect of Drax Power Limited's secured commodity trading line. During the prior year the Group opted to close the secured commodity trading line due to its limited utilisation and as such no further trades were able to utilise the line. The final trades utilising the line matured in March 2021.

Guarantees and security have also been provided in respect of the above borrowings, letters of credit and secured trading lines by certain members of the Group.

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 4.2 to the Drax Group plc 2021 Annual Report and Accounts on pages 221-223.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

19 Share-based payments

Equity-settled share option schemes

The Group operates the Sharesave Plan (SAYE) for all UK qualifying employees.

Additional information in relation to the Group's share based incentive plans can be located in pages 238-241 of the 2021 Drax Group plc Annual report and accounts.

The table below represents the credit to equity during the year:

	2021 £000	2020 £000
SAYE Plan	59	-
	<u>59</u>	<u>-</u>

	2021			2020		
	Weighted average share price at the date of exercise	Range of exercise prices for options outstanding	Weighted average remaining contractual life	Weighted average share price at the date of exercise	Range of exercise prices for options outstanding	Weighted average remaining contractual life
	£	£	months	£	£	months
SAYE 3-year plan	-	£1.27-£3.31	18	-	-	-
SAYE 5-year plan	-	£1.27-£3.31	41	-	-	-

20 Pension commitments

Defined Contribution Scheme

The Company operates a defined contribution pension scheme for its employees which provides a retirement benefit that is dependent upon actual contributions made by both the Company and the members of the scheme. The pension charge for the year amounted to £69k (2020: £nil). Contributions amounting to £nil (2020: £nil) were payable to the fund and included in creditors. The Company has no further payment obligations once the contributions have been paid.

Defined Benefit Scheme

The Company's parent, Drax Hydro Limited, is the sponsoring employer of the Drax 2019 defined benefit pension scheme in which this Company is a participant. As there is no formalised policy for the allocation of the defined benefit cost between the companies, the full defined benefit cost is accounted for in Drax Hydro Limited, with the contributions payable by the Company of £208k (2020: £nil) expensed to the Income Statement as they become payable. Details of the Drax 2019 scheme can be found in the financial statements of Drax Hydro Limited whose registered office is Drax Power Station, Selby, North Yorkshire, United Kingdom, YO8 8PH.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

21 Commitments

The Company has a number of financial commitments (i.e. a contractual requirement to make a cash payment in the future) that are not recorded in our balance sheet as the contract is not yet due for delivery. Such commitments relate to contracts for the future construction of assets.

	2021 £000	2020 £000
Contracts placed for future capital expenditure not provided in the financial statements	313	-

22 Business combinations

On 30 June 2021, the Company entered into an agreement with Drax Power Limited (a Drax Group Company) for the purchase of the trade and assets of the Drax Power Limited generation business at Cruachan. Consideration for the sale was £36,428k to be settled by adjusting intra-group balances. Details of the acquisition are set out below:

	£000
Consideration paid	36,428
Net Book Value of Net Assets transferred	(36,428)
	-
Net Book Value of Net Assets transferred	£000
Property, Plant and Equipment (note 10)	32,448
Inventories	155
Trade and other receivables and contract-related assets	4,987
Trade payables and other payables	(1,162)
	36,428

23 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.

Outstanding balances between Group entities as at the balance sheet date are disclosed within notes 13 and 14 above. There are no other transactions to disclose.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2021

24 Ultimate parent undertaking and controlling party

At the beginning of the period covered by these financial statements, the immediate parent company was Drax Research and Innovation Holdco Limited. On 22 June 2021, as part of a Group restructure, the Company was acquired by another Drax Group entity, Drax Hydro Limited. The Company became a direct subsidiary undertaking of Drax Hydro Limited from this point. The immediate parent company at the date of signing the financial statements is Drax Hydro Limited.

The ultimate parent and controlling 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 and the registered office is Drax Power Station, Selby, North Yorkshire YO8 8PH. Copies of the consolidated financial statements for Drax Group plc are available from: Company Secretary, Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.