

Drax Pumped Storage Limited

Annual Report and Financial Statements

For the Year Ended

31 December 2022

Company Number 06657336

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COMPANIES HOUSE

Drax Pumped Storage Limited

Officers and Professional Advisers

Directors	Will Gardiner Andy Skelton Paul Sheffield Penny Small
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 2022

Introduction

The Directors present their Strategic Report for Drax Pumped Storage Limited ("the Company") for the year ended 31 December 2022.

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 equalled the value of the net assets transferred of £36,428k. The prior period comparative figures herein therefore represent the results of six months of trading. See note 22 for further details.

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

The 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 through the use of its 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 its gross margin. Further details are provided on pages 6-9 of the 2022 Drax Group plc 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.

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.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Revenue for the year of £223,104k (2021: £52,797k) and EBITDA (defined as earnings before interest, tax, depreciation (including losses on disposal of assets), and amortisation) of £114,252k (2021: £27,880k) relate primarily to electricity sales, balancing market revenues and ancillary income. Cruachan Power Station was acquired on 30 June 2021; comparative figures shown in the Income Statement therefore relate to the last six months of 2021 only. The substantial increase in revenue and EBITDA, when compared to the prior year on a pro rata basis, was achieved through higher power prices for 2022. This result is net of a £6,120k payment to the Voluntary Energy Redress Fund. Revenue and EBITDA are considered to be the Company's principal financial performance metrics.

Net assets were £152,436k as at 31 December 2022 (2021: £61,101k). The increase in net assets was mainly due to the increase in amounts owed by Group undertakings to £146,152k (2021: £23,009k), driven by higher volumes and prices on power sales contracted through another Group company and held as receivables under the Group's cash pool arrangement.

Keeping people safe is a core principal of the Company. The Total Recordable Incident is an industry standard measure of fatalities, lost time injuries and medical treatment injuries per 100,000 hours worked. In 2022 the TRIR was nil (2021: nil).

Availability in 2022 (defined as the average percentage of time the generation asset was available for generation excluding planned outages) was 99.1% (2021: 97.0%). Availability has a direct impact on our financial performance.

Summary of key performance indicators

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

KPI	2022	2021
Total Recordable Incident Rate	Nil	Nil
Availability	99.1%	97.0%
Revenue	223,104k	52,797k
EBITDA ⁽¹⁾	114,252k	27,880k
Net assets	152,436k	61,101k

(1) EBITDA is calculated by removing the impact of depreciation (as disclosed in Note 5) from operating profit.

Future developments

The future performance of the Company will be dependent on future power prices and developments in the power generation industry. No changes are planned to the principal activities of the Company.

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 77 to 91 of the 2022 Drax Group plc Annual report and accounts.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

POLITICAL AND REGULATORY RISK

Context

During 2022, the focus of the UK Government turned to the situation in Ukraine, the cost-of-living crisis, and energy security. Global economic challenges and volatility in commodity markets have created the potential for an accelerated timeline for the UK Government's continuing review and reform of the detailed legislation and regulation that underpins the electricity market. In 2022, this included launching the Review of electricity market arrangements ("REMA") consultation. January 2023 also saw the Government seeking views on proposed reforms to strengthen the security of supply and provide greater clarity around the transition to net zero.

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 UK legal framework following Brexit; changes to electricity market structure and the launch of the REMA consultation; network access and electric charging arrangements; environmental regulation; wholesale market arrangements including impacts on liquidity; and consumer service and affordability requirements.

Mitigations

- Engaging with politicians and government officials, to listen to and inform understanding and perception of the Company's business. This includes our commitments on sustainability and the creation of socioeconomic value (including jobs, training, and investment in communities), plus the critical role that the Company's strategy will play in supporting the UK's committed target to achieve net zero by 2050 and ensuring security of supply.
- Engaging with regulators and industry bodies to understand their priorities, influence the strategic direction, and undertake scenario planning in preparedness for ensuring compliance as well as working with wider stakeholders and industry associations.
- Confirming our compliance frameworks and internal guidance remain robust and continue to focus on best practice as regulation evolves and the business further expands its global operations.

CLIMATE CHANGE

Context

The resilience of the Company's strategy and operations to climate risks is important to the functioning and long-term value creation of the Company. We have identified climate risks in two main categories – physical and transitional. Physical impacts of climate change include event-driven, acute impacts, such as flooding, and chronic impacts, such as sea-level and temperature rises which may pose challenges to our operations. Transitional impacts of climate change include policy, regulatory, technology and market-related changes associated with the transition to a low-carbon economy that could affect the Company's business model, but also serve as opportunities for growth.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

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 the Company.
- Technology risks related to the transition to a low carbon economy include technology and innovation not developing as expected.

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.
- Modelling of reservoir spillway capacities at Cruachan Dam, to understand capacity for extreme weather events.

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).

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.

Failure to procure critical spares, goods, and services could result in production losses. The war in Ukraine has resulted in supply chain challenges such as longer lead times and significantly increased costs, exacerbated by global competition for raw and manufactured materials.

Mitigations

- A comprehensive plant investment and reliability programme has been implemented, that is risk-based and reflects the challenges of operating complex equipment and takes account of potential long lead times for spares, supported by an experienced engineering team. Increased controls such as advanced condition monitoring to alert any plant failures before they occur, where practicable, are being installed.
- 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.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

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 and accrued income). Credit exposure is controlled by counterparty limits that are reviewed and approved by the Risk Management Committee.

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 it recognises that decisions taken today will have an impact upon stakeholders, as well as shape the longer-term performance of the business. Appropriate consideration is important in enabling Drax to deliver positive outcomes for the climate, nature and people, and to deliver sustainable value creation.

Examples of the 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 27 to 33 in the Drax Group plc 2022 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 and investment decisions, we recognise that these decisions can have an impact far beyond our business and well 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 carbon removals; and to be a UK leader in dispatchable, renewable power.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

The interests of the Company's employees

Engaging with our colleagues is a priority and starts with listening to, and better understanding, their views. Established in 2019, our workforce engagement forums ("MyVoice Forums") are a valuable way for the Board and senior management to undertake such engagement. The MyVoice Forums are made up of colleague members from each part of our business, to ensure representation for every function. They provide us with a view of colleague sentiment and key topics that are on colleagues' minds. In respect of our annual employee engagement survey, our engagement and inclusion scores have improved since 2021. The 2021 engagement survey highlighted that leading change, our social and environmental commitment, and providing opportunities for careers and development are what matter most to our colleagues. In 2022, our survey results showed that good progress has been made on leading change on and careers and development. However, there is more work to do to help build colleague understanding around our social and environmental commitments.

A member of the Group Executive Committee and an HR representative support these forums and attend each meeting. The MyVoice Forum chairs meet quarterly with the Chair and CEO of the Group to discuss colleague sentiment and to provide feedback on key topics.

We also maintain regular dialogue with our workforce through our colleague briefings, weekly updates from the Group CEO with a question-and-answer section responding to colleague questions, our pulse and annual engagement surveys, and communication about the Group's strategy, plans and performance. During 2022, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for colleagues are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned. We actively encourage participation in the Group-wide all-employee Sharesave scheme, offering the maximum discount of 20% and waiving any length of service requirements.

The need to foster the Company's business relationships

Suppliers

Our relationships with suppliers are governed by contracts that include our minimum standards including compliance with relevant regulatory and legal requirements, anti-bribery and corruption, modern slavery and supplier code of conduct. These minimum standards are regularly reviewed by our Procurement, Legal, and Business Ethics functions. The Group has also signed up to the Prompt Payment Code, and monitors performance to both continue to improve payment performance and maintain positive supplier relationships.

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. Our Group ambition is to become carbon negative by 2030. For more information see pages 47 to 65 in the Drax Group plc 2022 Annual Report and Accounts.

Drax is an active participant in the communities in which it operates. Strong community relationships and effective engagement strengthen our ability to operate effectively in those regions. We engage regularly with communities through supporting local initiatives and holding drop-in sessions. To read more about our positive social impact across the Group, see pages 28 and 31 to 33 in the Drax Group plc 2022 Annual Report and Accounts.

Drax Pumped Storage Limited

Strategic Report (continued) For the Year Ended 31 December 2022

Drax is committed to being a global force for good. In 2022, the Group approved a proposal to set up a global corporate giving model to support this vision. In 2023, the Group launched the Drax Foundation, which will manage and distribute a fund for community investment and giving across the Group's core territories. Covering the UK, US and Canada, the Foundation will be under the governance of a new sub-committee of the Drax Group plc Board. The Foundation will enable Drax to invest in larger-scale and longer-term projects in each of our territories, and to provide financial support and sponsorship to local community projects and charities. The Foundation will provide a tangible link to the Group's sustainability strategy. All projects will require an assessment to ensure they have the potential to deliver at least one of the following outcomes:

- Climate positive: Contributing to tackling the climate crisis
- Nature positive: Contributing to creating and maintaining thriving, sustainable natural environments
- People positive: Helping those most at risk in the transition to net zero to find sustainable, meaningful work and to support education

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 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 2022, we delivered our annual eLearning refreshers and provided additional training to certain 'at higher risk' teams throughout the year on business ethics related topics. For more details on how the business ethics programme is managed, see pages 71 to 73 of the Drax Group plc 2022 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 climate change; sustainability; 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 21 June 2023 and signed on its behalf by.



Andy Skelton
Director

Drax Pumped Storage Limited

Directors' Report For the Year Ended 31 December 2022

The Directors present their report and the financial statements of Drax Pumped Storage Limited (the "Company") for the year ended 31 December 2022.

Results and dividends

The profit for the financial year, after taxation, amounted to £91,294k (2021: £22,041k). This substantial increase, when compared to the prior year on a pro rata basis, was achieved through higher power prices for 2022.

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 (2021: £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 and financial risk management policies and objectives 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. 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, where applicable, credit metrics and the current and future economic climate. In their assessment, the Directors have considered the principal risks faced by the Company, including climate change.

At 31 December 2022, the Company had net current assets of £120,460k (2021: £28,849k). The Company has a gross profit margin of 68% (2021: 60%) and the Company is expected to remain profitable for the 12-month period following the date that these financial statements were authorised for issue. Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months after the date of signing. 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 2022

Directors

The Directors who served during the year and subsequently were:

Will Gardiner
Andy Skelton
Paul Sheffield
Penny Small

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 SL 008/410 of the Companies Act 2006 as its figures are included within its ultimate parent company's disclosure. The Group carbon emissions report can be found on page 61 of the 2022 Drax Group plc Annual report and accounts.

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.

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.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Drax Pumped Storage Limited

Directors' Report (continued) For the Year Ended 31 December 2022

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 21 June 2023 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 2022 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 and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

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, Pensions legislation, 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.

As a result of performing the above, we identified the greatest potential for fraud in the following area, and our specific procedures performed to address it are described below:

- Cut-off of bilateral sales has been determined a significant risk due to it carrying the greatest potential for fraud. Our audit procedures involve obtaining an understanding of the relevant internal controls surrounding the cut-off of bilateral sales, and testing those controls to assess their effectiveness as part of our audit testing, as well as substantive procedures over accrued income at year end to agree to post year end bank statements, confirmation of the period to which the revenue relates and testing post-year end settlements.

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.

Drax Pumped Storage Limited

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

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.

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

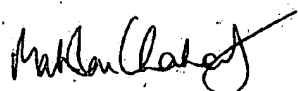
Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- 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

23 June 2023

Drax Pumped Storage Limited

Income Statement For the Year Ended 31 December 2022

	Notes	2022 £000	2021 £000
Revenue	4	223,104	52,797
Cost of sales		(100,758)	(20,971)
Gross profit		122,346	31,826
Operating and administrative expenses		(9,253)	(4,584)
Operating Profit	5	113,093	27,242
Interest receivable/(payable) and similar expenses	8	487	(7)
Profit before tax		113,580	27,235
Tax charge on profit	9	(22,286)	(5,194)
Profit for the financial year		91,294	22,041

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 34 form part of these financial statements.

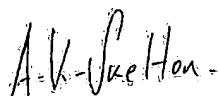
Drax Pumped Storage Limited

Balance Sheet As at 31 December 2022

Company number 06657336

	Notes	2022 £000	2021 £000
Fixed assets			
Property, plant and equipment	10	33,780	32,795
Right-of-use assets	11	36	113
		<u>33,816</u>	<u>32,908</u>
Current assets			
Inventories	12	252	175
Trade and other receivables and contract-related assets	13	153,145	30,957
Cash and cash equivalents		1	1
		<u>153,398</u>	<u>31,133</u>
Current liabilities			
Trade and other payables	14	(32,912)	(2,207)
Lease liabilities	11	(26)	(77)
		<u>(32,938)</u>	<u>(2,284)</u>
Net current assets		<u>120,460</u>	<u>28,849</u>
Total assets less current liabilities		<u>154,276</u>	<u>61,757</u>
Non-current liabilities			
Lease liabilities	11	-	(37)
Deferred tax	15	(1,840)	(619)
		<u>(1,840)</u>	<u>(656)</u>
Net assets		<u>152,436</u>	<u>61,101</u>
Capital and reserves			
Called up share capital	16	1	1
Share premium	17	38,999	38,999
Retained earnings		113,436	22,101
Total shareholders' equity		<u>152,436</u>	<u>61,101</u>

The financial statements were approved and authorised for issue by the Board of Directors and were signed on its behalf on 21 June 2023.



Andy Skelton
Director

The notes on pages 17 to 34 form part of these financial statements.

Drax Pumped Storage Limited

Statement of Changes in Equity For the Year Ended 31 December 2022

	Called up share capital £000	Share premium £000	Retained earnings £000	Total equity £000
At 1 January 2021	-	-	-	-
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
Profit for the year	-	-	91,294	91,294
Total comprehensive income for the year	-	-	91,294	91,294
Movement in equity associated with share-based payments (note 19)	-	-	41	41
Total transactions with owners	-	-	41	41
At 31 December 2022	1	38,999	113,436	152,436

The notes on pages 17 to 34 form part of these financial statements.

Drax Pumped Storage Limited

Notes to the Financial Statements For the Year Ended 31 December 2022

1 General information

Drax Pumped Storage Limited ("the Company") is a private company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. The address of the registered office can be found on the Officers and Professional Advisors 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, which is the currency of the primary economic environment in which the Company operates. 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, paragraph 58, 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 2022 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 2022

2 Accounting policies (continued)

2.3 Adoption of new accounting standards

The following amendments became effective for the first time in 2022. The Company adopted the following from 1 January 2022:

- Annual Improvements 2018-2020 Cycle – effective from 1 January 2022.
- IAS 37 (amended) – Onerous Contracts: Cost of Fulfilling a Contract – effective from 1 January 2022.
- IAS 16 (amended) – Property, Plant and Equipment – Proceeds before Intended Use – effective from 1 January 2022.

The adoption of these amendments in the current year has not had a material impact on the financial statements.

At the date of approval of this report, the following new or amended standards and relevant interpretations, which have not been applied in these financial statements, were in issue but not yet effective.

- IFRS 10 (amended) – Consolidated Financial Statements – effective date deferred indefinitely.*
- IAS 28 (amended) – Investments in Associates and Joint Ventures (2011) – effective date deferred indefinitely.*
- IFRS 16 (amended) – Lease Liability in a Sale and Leaseback – effective from 1 January 2024.*
- IFRS 17 Insurance Contracts – effective from 1 January 2023.
- IAS 1 (amended) – Classification of Liabilities as Current or Non-Current – effective from 1 January 2024.*
- IAS 1 (amended) – Non-current Liabilities with Covenants – effective from 1 January 2024.*
- IAS 1 (amended) – Disclosure of Accounting Policies – effective from 1 January 2023.
- IAS 8 (amended) – Definition of Accounting Estimates – effective from 1 January 2023.
- IAS 12 (amended) – Deferred Tax related to Assets and Liabilities arising from a single Transaction – effective from 1 January 2023.

* Pending endorsement by the UK Endorsement Board (UKEB).

Adoption of the new or amended standards and relevant interpretations in future periods is not expected to have a material impact on the financial statements of the Company. The Company will continue to monitor the developments of these new or amended standards as and when they are endorsed for use in the United Kingdom.

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.

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

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2 Accounting policies (continued)

2.4 Going concern (continued)

At 31 December 2022, the Company had net current assets of £120,460k (2021: £28,849k). The Company has a gross profit margin of 68% (2021: 60%) and the Company is expected to remain profitable for the 12-month period following the date that these financial statements were authorised for issue. Therefore, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for at least 12 months after the date of signing. Accordingly, they 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 based on amounts recharged to other Group companies in relation to this Company's generation output contribution to the overall generation sales to external counterparties. The external generation sales of the Group are managed centrally by another Group company.

The Cruachan Power Station exports power in certain periods and imports power from the grid in other periods. This depends on whether the power station is releasing water from its upper reservoir in order to generate power (exporting) or consuming power by pumping water up to its upper reservoir ready to be released (importing). On occasions the units are forward hedged, but in the near term we may optimise our position and generate additional value. Any optimisation gains or losses relating to a period when the power station was exporting power are recognised within revenue, whereas any optimisation gains or losses relating to a period when the power station was importing power are recognised within cost of sales. If the unit hadn't been forward sold, any importing costs sit in cost of sales, any export value is recognised in revenue.

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 the 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.

2.7 Interest receivable

Interest receivable is recognised in the Income Statement using the effective interest method.

2.8 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.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2 Accounting policies (continued)

2.8 Current and deferred taxation (continued)

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.

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.

2.9 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 where applicable. Property, plant and equipment is 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 UEL of an asset in the main categories of assets owned by the Company in years:

	Average UEL Remaining (years)
Freehold buildings	44
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 2022

2 Accounting policies (continued)

2.9 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 UELs 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.

2.10 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.

2.11 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 of 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 2022

2 Accounting policies (continued)

2.11 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.

2.12 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.

2.13 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. The Company applies the impairment model in IFRS 9 to provide for expected credit losses on the Company's financial assets including trade receivables, accrued income, contract assets and other financial assets. The provision for impairment of trade receivables and accrued income (including contract assets) is measured at an amount equal to the lifetime expected credit loss.

For other financial assets, including amounts owed by Group undertakings, the Company recognises a lifetime expected credit loss provision when there has been a significant increase in credit risk since initial recognition. If the credit risk of the financial instrument has not increased significantly since initial recognition, the Company recognises a 12-month expected credit loss provision.

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 year.

2.14 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.

2.15 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.

2.16 Reserves

The Company's capital and reserves are as follows:

Share capital

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

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

2 Accounting policies (continued)

2.16 Reserves (continued)

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.

2.17 Foreign Currency

Transactions in foreign currencies are translated into sterling at the average monthly exchange rate to the extent that this approximates the exchange rate prevailing at the date of the transaction. If the average monthly exchange rate is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, income and expenditure are translated at the rates prevailing at the date of the transaction.

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.

2.18 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 the balance sheet date), 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.

2.19 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.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

3 Critical accounting judgements 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.

4 Revenue

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

	2022 £000	2021 £000
Electricity sales	172,458	24,087
Balancing market revenues	24,950	16,001
Ancillary revenues and other income	25,696	12,709
	<u>180,246</u>	<u>52,797</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.

Balancing market revenues were net of a £6,120k payment to a Voluntary Energy Redress Fund.

5 Operating profit

Operating profit for the year is stated after charging:

	Note	2022 £000	2021 £000
Depreciation of property, plant and equipment	10	1,082	599
Depreciation of right-of-use assets	11	77	39
Research and development expenditure		995	621
Staff costs	6	2,624	1,261
Short-term and low value lease expenses	11	<u>1</u>	<u>1</u>

Fees payable to Deloitte LLP for the audit of the financial statements were £3,200 (2021: £2,500) and were borne by another Group company. No non-audit fees were incurred in either the current or preceding financial year.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

6 Employees

Staff costs were as follows:

	Note	2022 £000	2021 £000
Wages and salaries		1,803	837
Social security costs		224	87
Pension costs	20	554	277
Share-based payments	19	41	60
		<u>2,624</u>	<u>1,261</u>

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

	2022 (number)	2021 (number)
Operations	35	17
	<u>35</u>	<u>17</u>

The average number of employees has increased for the 2022 financial year as the Company was dormant until July 2021 and therefore had no employees for the first six months of the 2021 financial year.

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 receivable/(payable)

	2022 £000	2021 £000
Interest receivable/(payable) to Group undertakings	490	(5)
Interest payable on lease liabilities (note 11)	(3)	(2)
	<u>487</u>	<u>(7)</u>

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

9 Taxation

	2022 £000	2021 £000
Corporation tax		
Current tax charge on profit for the year	20,884	4,575
Adjustments in respect of prior periods	181	-
Total current tax charge for the year	21,065	4,575
Deferred tax		
Current period charge	901	619
Adjustments in respect of prior periods	320	-
Total deferred tax charge for the year	1,221	619
Total tax charge for the year	22,286	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:

	2022 £000	2021 £000
Profit on ordinary activities before tax	113,580	27,235
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 19%	21,580	5,175
Super-deduction ⁽¹⁾	(60)	(54)
Adjustment in respect of prior periods	501	-
Research and Development expenditure credit	(14)	-
Expenses not deductible for tax purposes	17	18
Impact of tax rate changes	262	55
Total tax charge for the year	22,286	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 and March 2023.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

9 Taxation (continued)

Factors that may affect future tax charges

The Finance Act 2021 included legislation to increase the rate of UK corporation tax from 19% to 25% from 1 April 2023.

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 buildings	Plant, machinery, fixtures and fittings	Plant spare parts	Total
	£000s	£000s	£000s	£000s
Cost				
At 1 January 2022	4,035	29,262	97	33,394
Additions	-	2,036	36	2,072
Issues/transfers during the year	-	-	(5)	(5)
At 31 December 2022	4,035	31,298	128	35,461
Depreciation				
At 1 January 2022	43	555	1	599
Charge for the year	88	991	3	1082
At 31 December 2022	131	1,546	4	1,681
Net book value				
At 31 December 2022	3,904	29,752	124	33,780
At 31 December 2021	3,992	28,707	96	32,795

Assets in the course of construction amounted to £3,188k at 31 December 2022 (2021: £1,849k) and is included within plant, machinery, fixtures and fittings. There were no borrowing costs capitalised in the year (2021: £nil).

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

11 Leases

Right-of-use assets

	Vehicles £000
Cost:	
At 1 January 2022	152
At 31 December 2022	<u>152</u>
Accumulated depreciation:	
At 1 January 2022	39
Charge for the year	77
At 31 December 2022	<u>116</u>
Net book value	
At 31 December 2022	<u>36</u>
At 31 December 2021	<u>113</u>

Lease liabilities

	Vehicles £000
Carrying amount:	
At 1 January 2021	-
Additions	152
Interest charged to the Income Statement	2
Payments	(40)
At 31 December 2021	114
Interest charged to the Income Statement	3
Payments	(91)
At 31 December 2022	<u>26</u>
Current portion	26
Non-current portion	<u>-</u>

In addition to the payments disclosed above, the Company also made total payments of £1k (2021: £1k) 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 2022

12 Inventories

	2022	2021
	£000	£000
Consumables	252	175
	<u>252</u>	<u>175</u>

No provision for impairment of inventories has been recognised.

13 Trade and other receivables and contract-related assets

	2022	2021
	£000	£000
Trade receivables	1,320	14
Amounts owed by Group undertakings	146,152	23,009
Prepayments and accrued income	1,354	5,653
Contract assets	4,319	2,218
Other receivables	-	63
Total	<u>153,145</u>	<u>30,957</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.

The reconciliation from opening to closing contract assets is as follows:

	2022	2021
	£000	£000
Balance at 1 January	2,218	-
Increase in the period due to changes in the measure of progress	4,319	-
Transfer of contract assets to trade receivables	(2,218)	-
Increases in the period as a result of new contracts	-	2,218
Balance at 31 December	<u>4,319</u>	<u>2,218</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 2022

14 Trade and other payables

	2022	2021
	£000	£000
Trade payables	1,032	756
Amounts owed to Group undertakings	23,196	255
Other payables	6,118	2
Other tax and social security	239	472
Accruals	2,327	722
Total	32,912	2,207

The amounts owed to Group undertakings include short term trading balances which are unsecured, interest free and settled under normal payment terms.

Significant increase in amounts owed to Group undertakings is due to the Corporation Tax charge, which is settled by another Group company under a Group Payment Arrangement.

15 Deferred tax

	Accelerated capital allowances £000
At 1 January 2021	-
Charged to the Income Statement	619
Net tax assets at 31 December 2021	619
Charged to the Income Statement (note 9)	1,221
At 31 December 2022	1,840

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.

16 Share capital

	2022	2021
	£000	£000
Authorised, allotted, called up and fully paid		
1,000 (2021: 1,000) ordinary shares of £1 each	1	1

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

17 Share premium

	2022 £000	2021 £000
At 1 January	38,999	-
Issue of share capital	-	38,999
At 31 December	<u>38,999</u>	<u>38,999</u>

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. Refer to the Strategic Report 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 2022 the outstanding secured borrowings of the Group held by other Group companies amounted to £1,405.5 million (2021: £1,376.2 million).
- At 31 December 2022 letters of credit issued under the revolving credit facility held by Drax Corporate Limited and guaranteed by Group companies amounted to £45.6 million (2021: £74.4 million).

The Company also provides security and guarantees in respect of Drax Power Limited's (a Group Company) secured trading lines for certain foreign exchange, 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 Group's senior financing arrangements and would crystallise in the event of Drax Power Limited defaulting on the terms of these arrangements.

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

Further information on the Group's borrowings can be found in note 4.2 to the Drax Group plc 2022 Annual report and accounts on pages 224-226.

Drax Pumped Storage Limited

Notes to the Financial Statements (continued) For the Year Ended 31 December 2022

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 242-245 of the 2022 Drax Group plc Annual report and accounts.

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

	2022 £000	2021 £000
SAYE Plan	41	60
	<u>41</u>	<u>60</u>

	Weighted average share price at the date of exercise	2022 Range of exercise prices for options outstanding	Weighted average remaining contractual life	Weighted average share price at the date of exercise	2021 Range of exercise prices for options outstanding	Weighted average remaining contractual life
	£	£	months	£	£	months
SAYE 3-year plan	£8.00	£1.27-£5.63	9	-	1.27-3.31	18
SAYE 5-year plan	-	£1.27-£5.63	29	-	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 £151k (2021: £69k). Contributions amounting to £nil (2021: £nil) were payable to the fund at the balance sheet date. At the balance sheet date the Company therefore had no payment obligations in relation to the defined contribution scheme.

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 participating companies, the full defined benefit cost is accounted for in Drax Hydro Limited, with the contributions payable by the Company of £403k (2021: £208k) 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 2022

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 the balance sheet as the contract is not yet due for delivery. Such commitments relate to contracts for the future construction of assets.

	2022 £000	2021 £000
Contracts placed for future capital expenditure not provided in the financial statements	1,054	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	32,448
Inventories	155
Trade and other receivables and contract-related assets	4,987
Trade payables and other payables	(1,162)
	36,428

No business combinations took place during 2022.

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 2022

24 Ultimate parent undertaking and controlling party

The immediate parent company at the date of signing the financial statements is Drax Hydro Limited. The registered office of Drax Hydro Limited is Drax Power Station, Selby, North Yorkshire YO8 8PH.

The ultimate parent and controlling company is Drax Group plc, a publicly listed Company incorporated in the United Kingdom and registered 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.