

Drax Generation Developments Limited

Annual Report and Financial Statements

For the Year Ended

31 December 2021

Company Number 07821368



Drax Generation Developments Limited

Annual Report and Financial Statements for the year ended 31 December 2021

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Directors

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

Company secretary

Brett Gladden

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PH

Company number

07821368

Drax Generation Developments Limited

Directors' Report for the year ended 31 December 2021

The Directors present their Annual Report and the financial statements of Drax Generation Developments Limited ("the Company") for the year ended to 31 December 2021.

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

Principal activities

The Company's principal activity is a development company, primarily supporting the development of the Group's Open Cycle Gas Turbine ("OCGT") companies.

Financial performance and position

The profit for the year, after taxation, amounted to £3,319k (2020: loss of £32k). This was predominantly due to the Company selling three of the OCGT project development assets to other Group companies during the year. The Company continues to support the development of the OCGT projects following their sale to other Group companies.

Principal risks and uncertainties

The Company has a comprehensive system of governance controls in place to mitigate risks. Policies, procedures and internal controls have been established across the key areas of the business to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Drax Group plc Board. Further details are included on pages 76-91 of the 2021 Annual report of Drax Group plc.

Post balance sheet events and going concern

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

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

The Directors believe that although the Group's primary focus is on flexible and renewable generation, the Directors continue to see an important role for gas in the provision of system support and believe that the OCGT projects are an attractive means through which these services could be provided. Accordingly, the Directors remain committed to the development of options for the OCGT projects.

At 31 December 2021, the Company had net current assets of £2,013k (2020: liabilities of £1,306k). This is principally due to the £28,093k (2020: £22,407k) payable to other group undertakings offset by £25,253k (2020: £143k) receivable from other group undertakings. The Company has a letter of support from another group company, Drax Group Holdings Limited, and on this basis, the Directors consider that the Company can meet its liabilities as they fall due for the foreseeable future.

The Directors have a reasonable expectation that, with the confirmation of Group support from Drax Group Holdings Limited, the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

There are no significant subsequent events to report.

Drax Generation Developments 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.

Small companies' exemption

In preparing this report, the Directors have taken advantage of the small companies' exemptions provided by section 415A of the Companies Act 2006.

The Directors have taken advantage of the small companies' exemption, in accordance with section 414B of the Companies Act 2006, from including a separate Strategic Report in these financial statements.

Directors' responsibility 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 Generation Developments Limited

Directors' Report (*continued*) for the year ended 31 December 2021

Directors' responsibility statement (*continued*)

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

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

A handwritten signature in black ink, appearing to read 'Penny Small', is positioned above the printed name and title.

Penny Small
Director

Drax Generation Developments Limited

Income Statement for the year ended 31 December 2021

| | Note | 2021 £000 | 2020 £000 |
|---|------|--------------|--------------|
| Revenue | 4 | 17,945 | - |
| Cost of Sales | | (14,967) | - |
| Gross Profit | | 2,978 | - |
| Other income | | 1,130 | |
| Administrative expenses | | (10) | (40) |
| Profit/(loss) before tax | 5 | 4,098 | (40) |
| Tax (charge)/credit on loss | 6 | (779) | 8 |
| Profit/(loss) for the financial year | | 3,319 | (32) |

There is no other comprehensive income for the current or preceding financial year and thus no Statement of Other Comprehensive Income is presented.

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

Drax Generation Developments Limited

Balance Sheet as at 31 December 2021

| Company number 07821368 | Note | 2021 £000 | 2020 £000 |
|---|-------------|----------------------|----------------------|
| Current assets | | | |
| Inventories | 7 | 6,327 | 20,981 |
| Trade and other receivables: amounts falling due within one year | 8 | 25,450 | 231 |
| Current liabilities | | | |
| Trade and other payables: amounts falling due within one year | 9 | (29,764) | (22,518) |
| Net current assets/(liabilities) | | 2,013 | (1,306) |
| Net assets/(liabilities) | | 2,013 | (1,306) |
| Capital and reserves | | | |
| Called up share capital | 10 | - | - |
| Retained earnings | | 2,013 | (1,306) |
| Total equity | | 2,013 | (1,306) |

For the year ending 31 December 2021, the Company was entitled to exemption from audit under section 479A of the Companies Act 2006 relating to subsidiary companies. The members have not required the Company to obtain an audit of its accounts for the year in question in accordance with section 476 of the Companies Act 2006. The Directors acknowledge their responsibilities for complying with the requirements of the Companies Act 2006 with respect to accounting records and the preparation of accounts.

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



Penny Small
Director

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

Drax Generation Developments Limited

Statement of Changes in Equity for the year ended 31 December 2021

| | Called up share capital £000 | Retained earnings £000 | Total equity £000 |
|---|---------------------------------------|------------------------------|-------------------------|
| At 1 January 2020 | - | (1,274) | (1,274) |
| Comprehensive expense for the year | | | |
| Loss for the year | - | (32) | (32) |
| Total comprehensive loss for the year | - | (32) | (32) |
| At 31 December 2020 | - | (1,306) | (1,306) |
| Comprehensive expense for the year | | | |
| Profit for the year | - | 3,319 | 3,319 |
| Total comprehensive expense for the year | - | 3,319 | 3,319 |
| At 31 December 2021 | - | 2,013 | 2,013 |

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

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021

1 General information

Drax Generation Developments Limited is a private company, limited by shares, incorporated in England and Wales under the Companies Act 2006. The address of the registered office is given on the Company information page. The nature of the Company's operations and its principal activities are outlined in the Directors' Report.

2 Accounting policies

2.1 Basis of preparation of financial statements

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

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

The presentation currency used is sterling. Amounts have been presented in thousands for the first time this year and as a result, comparative balances that were previously presented in pounds ("£") have now been presented in thousands ("£000").

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 IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 10(d), 111 and 134 to 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

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. A copy of the Group's Annual Report and Accounts is also available on the Group's website: www.drax.com.

2.2.1 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 did not have a material impact on the financial statements of the Company.

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

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 *(continued)*

2 Accounting policies *(continued)*

2.3 Revenue

Revenue represents amounts receivable on the sale of the OCGT project development assets. Revenue is recognised at the point the development assets are transferred to another entity, which is either when a capacity market contract is awarded to the OCGT project, or at the point the company and the OCGT entity are no longer part of the same group. Revenue is measured at the fair value of consideration received or receivable and represents the amounts receivable for the development project, net of discounts and VAT.

All revenue is earned wholly in the United Kingdom.

2.4 Inventories

Inventory includes the costs incurred that are directly attributable to the development of the Group's OCGT entities recognised as work in progress. Work in progress is valued at the lower of cost and net realisable value.

2.5 Trade and other receivables

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

2.6 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 (e.g. costs incurred but for which no invoice has been received).

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

2.7 Functional currency

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

2.8 Taxation

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 reporting date in the countries where the Company operates and generates income.

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

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

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 (*continued*)

2 Accounting policies (*continued*)

2.8 Taxation (*continued*)

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

2.9 Share Capital

Called up share capital is classified as equity. Called up share capital represents the nominal value of the shares issued. Issuance costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.10 Retained earnings

The profit and loss account represents cumulative profits and losses, net of any dividends and other adjustments.

2.11 Going concern

In assessing the appropriateness of the application of the going concern basis, the Directors have considered the working capital requirements of the business and the available forecasts.

Despite having negative reserves, the Company has a letter of support from another group company, and has the facility to borrow cash from other Group companies when needed for operational purposes, negating any issues around liquidity of working capital.

Following this review the Company's Directors have a reasonable expectation that the Company will be able to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual financial statements.

2.12 Impairment

Work in progress is 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.

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 (*continued*)

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

In the application of the Company's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

The Directors have made one significant accounting judgement in preparing these financial statements, being the recovery of work in progress (WIP). At the Abergelli site, one of the Group's OCGT entities, there is currently £6,096k of WIP, the recoverability of which is dependent upon successfully obtaining a Capacity Market contract in future periods, and this is considered in the valuation. There are no key sources of estimation uncertainty.

4 Revenue

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

| | 2021 | 2020 |
|---------------------------------|---------------|----------|
| | £000 | £000 |
| OCGT project development assets | 17,945 | - |
| | <u>17,945</u> | <u>-</u> |

Revenue comprises solely of income from the sale of OCGT project development assets. As such, the Company has only one business segment and one geographical segment and no further segmental analysis is presented.

5 Profit before tax

Other income comprises management charges to other Group companies for costs incurred in relation to the development of OCGT for these Group companies.

Companies House fees were paid by another Group undertaking, in both the current and previous year.

5 Employees

The Company has no employees. The Directors are remunerated for services rendered to the Group and its subsidiary undertakings as a whole and it is not practicable to allocate these amounts to specific subsidiary undertakings. No remuneration is borne by this Company. Employee costs in the current and previous year relate to recharges from other Group Companies in respect of the work undertaken on behalf of the Company. Employee costs for the current year and previous year were all included in work in progress to be capitalised.

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 (continued)

6 Tax on loss

Tax charged/(credited) in the profit and loss account

| | Year ended 31 December 2021 £000 | Year ended 31 December 2020 £000 |
|---|---|---|
| Tax charge/(credit) comprises: | | |
| Current year charge/(credit) | 779 | (8) |
| Total tax charge/(credit) for the year | 779 | (8) |

The tax on the profit (2020: loss) for the year is the same (2020: the same) than the standard rate of Corporation Tax in the UK of 19% (2020: 19%). This is shown below:

| | Year ended 31 December 2021 £000 | Year ended 31 December 2020 £000 |
|--|---|---|
| Profit/(loss) on ordinary activities before tax | 4,098 | (40) |
| Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%) | 779 | (8) |
| Total tax charge/(credit) for the year | 779 | (8) |

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.

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 (continued)

7 Inventories

| | 2021 £000 | 2020 £000 |
|------------------|--------------|--------------|
| Work in progress | 6,327 | 20,981 |

The decrease in inventory is due to the company selling three of the OCGT project development assets to other companies in the Group during the year.

There have been no impairments in the year (2020: £nil).

8 Trade and other receivables: amounts falling due within one year

| | 2021 £000 | 2020 £000 |
|------------------------------------|---------------|--------------|
| Amounts owed by Group undertakings | 25,253 | 143 |
| Other receivables | 126 | 17 |
| Prepayments | 71 | 71 |
| | <u>25,450</u> | <u>231</u> |

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

9 Trade and other payables: amounts falling due within one year

| | 2021 £000 | 2020 £000 |
|------------------------------------|---------------|---------------|
| Trade payables | 30 | 70 |
| Amounts owed to Group undertakings | 28,093 | 22,407 |
| Accruals and deferred income | 862 | 41 |
| Corporation tax | 779 | - |
| | <u>29,764</u> | <u>22,518</u> |

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

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

10 Called up share capital

| | 2021 £ | 2020 £ |
|---|-----------|-----------|
| Allotted, called up and fully paid | | |
| 1 ordinary share of £1 | <u>1</u> | <u>1</u> |

Drax Generation Developments Limited

Notes to the Financial Statements for the year ended 31 December 2021 (*continued*)

11 Related party transactions

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

12 Ultimate parent undertaking and controlling party

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

The ultimate Parent Company is Drax Group plc, a publicly listed company incorporated in England and Wales. Drax Group plc is the smallest and largest group for which consolidated financial statements are prepared 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.