REGISTERED NUMBER: SC189124 (Scotland)

Annual report and audited financial statements

for the year ended 31 December 2021

VPI Power Limited
(Formerly Drax Generation Enterprise Limited)

VPI Power Limited

Contents of the financial statements for the year ended 31 December 2021

VPI Power Limited

Company information
for the year ended 31 December 2021

Directors:	D Brignall S R Hale
Company secretary:	E J Essex
Registered office:	20 Castle Terrace 2nd Floor North Saltire Court Edinburgh Scotland EH1 2EN
Registered number:	SC189124 (Scotland)
Auditor:	Deloitte LLP Statutory Auditor 1 New Street Square, London, United Kingdom EC4A 3HQ

The Directors present their Strategic Report for VPI Power Limited ("the Company") for the year ended 31 December 2021.

Change of name
On 2 February 2021, the Company changed its name from Drax Generation Enterprise Limited to VPI Power Limited.

Cautionary statement
These financial statements contain certain forward-looking statements with respect to the financial condition and business of the Company. Statements or forecasts relating to events in the future, by their nature, involve risk and uncertainty and are made by the Directors in good faith based on the information available at the date of signing this report. The Company undertakes no obligation to update these forward-looking statements. Nothing in these financial statements should be construed as a profit forecast nor should past performance be relied upon as a guide to future performance.

Principal activities, business review and future developments
The principal activity of the Company is the ownership and operation of a portfolio of generation assets.

On 15 December 2020, the sale of the Company from Drax Smart Generation Limited; part of the Drax Group PLC (Drax Group'), to VPI Generation Limited; part of the VPI Holding Limited group ('VPI group') was announced. The sale completed on 31 January 2021.

On 16 December 2020, the Company entered into an agreement with Drax Power Limited for the sale of the trade and assets of the Company's generation businesses at Cruachan, Lanark and Galloway (collectively referred to in these accounts as the hydro and pumped storage assets), combined the disposed of businesses represented 28% of the Tangible Fixed Assets net book value at that time, see note 28 for further details.

All assets and employees of the hydro and pumped storage assets, and of the company's direct subsidiary SMW Limited, were transferred to a Drax company prior to the completion. The company also ceased to operate a defined benefit pension and the obligation of £1.3m (2020: £1.3m) was transferred to a Drax company and de-recognised.

Prior to the restructure, throughout 2020, the Company had a generating capacity of 2,531 megawatts ("MW"). Following the restructure the generation capacity of the Company was 2,000 MW and at the balance sheet date, the portfolio consisted of four gas-fired Combined Cycle Gas Turbine ("CCGT") power stations at Damhead Creek, Rye House and Shoreham in the south of England, and Blackburn Mill in the north.

During December 2021, the Company entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek, see note 15 for further details.

It is the intention that the principal activities of the Company will continue for the foreseeable future.

The Company's profit for the financial year from continuing operations was £101.8m (2020: £20.5m) and discontinued operations was £nil (2020: £49.9m). Key contributors to the increased profitability were enhanced commodity market conditions, the reversal of an impairment provision against land and a gain on the sale of land.

The Company's Statement of Financial Position, on page 14, shows the Company has net assets of £167.2m (2020: £367.8m). The movement primarily relates to the distribution of dividends of £302.4m during the year (2020: £nil) and the purchase of emission allowances within inventories of £73.5m (2020: £nil).

Summary of key performance indicators
The profit and loss account presents results from the continued operations of the CCGT power stations.

The key financial indicators for continued operations during the year were as follows (all before movements on derivatives):

	2021 £'m	2020 £'m	Change %
Underlying Revenue	1,091.3	205.8	430
Underlying Gross profit	263.9	78.5	236
Underlying EBITDA*	231.6	45.7	407
Underlying gross profit as % of fixed assets	143%	41%	137

*EBITDA – 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Company. Underlying denotes results before unrealised gains and losses on derivative financial instruments.

All KPIs are stated prior to movements in derivative financial instruments, which is referred to as 'underlying' performance. The movements on derivatives is included to arrive at the statutory reported results shown in the income statement.

The Company has many non-financial performance indicators in place measuring health, safety and environment. Safety of personnel, coupled with a responsible, pro-active approach to managing the environment is core to the Company's business. The ultimate financial impact arising from environmental policies, laws and regulations is difficult to determine as current and new standards continue to evolve.

Principal risks and uncertainties
The principal risks and uncertainties facing the Company are those that impact the continuing business and profitability of the CCGT power stations and their related contracts. The CCGT power stations operate in the UK energy market, and as such, are exposed to fluctuations in wholesale energy prices. However, this exposure is managed through an active trading strategy. The Directors consider that the Company's exposure to market fluctuations, which are mitigated by the use of certain derivative contracts, remains at an acceptable level.

Health, safety and environment
Given the nature of the Company's activities, the health and safety of all our employees, contractors and the public is of paramount importance. The Company encourages a 'safety first' culture and operates its processes and procedures in all business areas in such a way as to ensure a safe working environment, and to comply with all relevant legal, environmental and regulatory requirements.

Energy and commodity risk
The Company operates in the UK power market and as such is exposed to movements in market prices for certain commodities and spreads together with energy output requirements. The Company has entered into certain supply and pricing arrangements, which partially mitigate unfavourable movements in energy pricing.

Credit risk
Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. The Company has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults.

Credit risk from balances with banks and financial institutions is actively managed. Investment of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty.

Plant operating risk
Failure of an essential component of the CCGT power stations may result in the loss of generation through a plant outage or reduced output capacity. This risk is mitigated through planned maintenance schedules, managing inventory of spare parts and regular monitoring activities. The Company maintains third party insurance cover to mitigate against significant operating risks.

Foreign currency risk
The Company is exposed to foreign currency exchange rate risk resulting from entering into certain transactions denominated in currencies other than pound sterling. The Company uses forward exchange rate contracts and options to hedge the risk of adverse foreign exchange rate movements.

Climate change
Managing the risks to the Company associated with climate change will be important to ensure longer-term viability. The risks include both the physical impacts of climate change on the Company's operations as well as the impacts arising from the transition to a low carbon economy. To mitigate this we continue to explore and invest in our portfolio de-carbonisation plans including the Humber Zero project.

Brexit
In 2021, the Government implemented a standalone UK Emissions Trading Scheme (ETS). The company had sufficient measures in place to mitigate perceived risks around leaving the EU ETS. VPI participated in both primary and secondary UK ETS auctions to successfully meet its 2021 emissions liability before the April 2022 compliance deadline.

Covid-19
On 11 March 2020 the World Health Organisation (WHO) declared a novel coronavirus disease, Covid-19, a global pandemic. As the effects of Covid-19 spread across the globe, the Company focussed on keeping the CHP and CCGT Plants providing safe and reliable electricity and energy. Following interaction with the UK government and knowledge sharing exercises across critical infrastructure operators, the Company identified the following key risk areas and strategies to preserve the health and wellbeing of staff and families whilst maintaining business continuity.

Workforce
The Company took immediate and contingent safety measures for its employees. The Company has been in regular consultation with the Government department for Business, Energy and Industrial Strategy (BEIS) applying their guidelines to mitigate the spread of infection. This included but was not limited to:

- adopting enhanced cleaning protocols particularly in high traffic areas;
- making every possible effort to enable working from home;
- segregating site staff as much as possible and implementing the government's social distancing guidelines. Where the social distancing guidelines couldn't be followed in full the Company has taken mitigating actions to reduce the risk of transmission between staff;
- reviewing and amending meeting and communication protocols to reduce social interaction; and
- supporting staff, or their families who were unwell with symptoms of Covid-19 to self-isolate.

Supply chain & operations
As some vendors and suppliers faced operational or financial struggles there was an increased risk to the supply chain. The Company placed increased focus and resources in monitoring this area. Critical supply chains were evaluated and where necessary strategic stock levels and communications with suppliers increased.

Global and UK economy
The implementation of lockdown measures led to a short-term temporary decline in industrial demand for energy, followed by an increasing volatility in the associated markets. The Company is party to a number of supply and pricing arrangements as well as entering into forward commodity contracts to mitigate any unfavourable movements.

Due to implementing the above policies and procedures, the Company was able to mitigate the impact of Covid-19 on its operations and results. The capability to generate electrical power was not impacted by Covid-19. As the pandemic continues into 2022, the Company is monitoring on a daily basis Government guidance and modifying its approach to protect the business, workforce and supply chain as appropriate.

Streamlined Energy and Carbon Reporting
The CCGT power stations have a total output of 2,000 MW (2020: 2,531 MW). The Company has an Environmental Management System externally certified to ISO 14001, 2015. The majority of power consumed in 2021 was generated on site with 42,553.51 MW (2020: 39,424 MW) of additional energy imported from National Grid. The total amount of natural gas used for generation activities was 30,295.19 TJ LHV in 2021 (2020: 20,233 TJ). The CCGT power stations are efficient gas fired and therefore emits CO_2 from the generation process. The CO_2 emitted for 2021, as verified under the EU Emissions Trading Scheme, was 1,701,128 $tCO_2(e)$, (2020: 1,133,713) $tCO_2(e)$, this figure includes emissions from transport used on site.

Post Balance Sheet Events
On 24 February 2022 hostilities broke out between the Russian Federation and Ukraine, to date we have only witnessed a marginal impact from this on our supply chains or cost base but continue to monitor this closely.

Going concern
There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Company to continue as a going concern. The Company's underlying cash flow is strong. After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2023, and considering the principal risks and uncertainties on pages 3 and 4 including applying appropriate downside sensitivities with a focus on commodity prices, the Directors are confident that the Company has adequate resources to continue operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In particular, the Directors have considered the circumstances surrounding the Covid-19 pandemic and do not deem the situation to cause significant disruption to operations or the profitability of the Company that would impact on this conclusion. The business is viewed as critical infrastructure and so recent lockdown actions have not materially impacted on the business and its ability to operate as well as the capacity of the Company to manage associated sensitivities to its forecast profitability and cash generation within its available financing and covenants.

Statement of how the Directors have complied with their duty to have regard to the matters in Section 172(1) Companies Act 2006 'Duty to promote the success of the Company'
The Directors of the Company have a duty to act as they consider most likely to promote the success of the Company for the benefits of our members as a whole. As part of this duty, the Directors have regard to the likely consequences of any decision in the long-term for employees' interests, business relationships, the impact of operations in the environment and communities in which the Company operates, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly between members of the Company (however it should be noted that the Company has only one member).

Long term business decisions
The Directors fulfil their duty by ensuring that there is a strong governance structure and process running through all aspects of the Company's operations. The Company's forecasts are prepared with input from leading energy sector market consultants and are carefully considered by the Company's senior management team in conjunction with the Board. The Board is kept informed of all relevant issues by frequent communication with the senior management team of the business.

The Board is committed to being part of the UK's future pathway to Net Zero through its efficient and flexible generation portfolio complementing an increased use of renewables as part of the UK energy mix. Their focus is very much on ensuring the security of supply to the power grid and helping to reduce the UK's industrial emissions.

Full consideration is given to the Company's capital structure and capital allocation policy and its resilience to existing and emerging risks as disclosed throughout the Director's and Strategic Reports.

Employee interest and engagement
The Company's strategy and business model are underpinned by its employees. Experienced personnel with industry and functional expertise are employed and provided with support, space and responsibility to challenge and succeed within a flat, meritocratic organisational structure that encourages entrepreneurial and collaborative working. The environment also provides open communication throughout the Company at all times and an open door for new ideas and ways of working. Employees are further updated on Company matters through internal communications, newsletters and face to face meetings.

Statement of how the directors have complied with their duty to have regard to the matters in Section 172(1) Companies Act 2006 'Duty to promote the success of the Company' (continued)

Employee interest and engagement
The Company's strategy and business model are underpinned by its employees. Experienced personnel with industry and functional expertise are employed and provided with support, space and responsibility to challenge and succeed within a flat, meritocratic organisational structure that encourages entrepreneurial and collaborative working. The environment also provides open communication throughout the Company at all times and an open door for new ideas and ways of working. Employees are further updated on Company matters through internal communications, newsletters and face to face meetings.

Our dialogue with employees includes regular communication about the Company's strategy, plans and performance. During 2021, communications included updates about progress against the Company-wide scorecard, which includes KPIs in relation to financial, strategic, safety and sustainability performance. Annual bonuses for a large number of employees are linked to the scorecard performance, ensuring that employee reward and Company performance are aligned

Some employees are represented by a trade union so there is regular engagement with trade union representatives.

The Company's equal opportunity policy is disclosed in the Directors' report.

Business relationships with suppliers, customers and other stakeholders
The emphasis, for suppliers and customers, is on working collaboratively to identify and implement optimal solutions. Key to our strong, lasting business relationships is trust, built from offering quality and reliability of service and investing in long term partnerships. Notwithstanding, the Company carries out rigorous, risk based Know Your Customer (KYC) procedures on its partners and counterparts, and monitor these on an ongoing basis, as appropriate.

High standard of business conduct and operational impact on communities and the environment
Notwithstanding the importance of strong, lasting relationships, we are committed to a responsible and ethical conduct of business. The Company has in place robust compliance procedures which are focused on ensuring that all business conducted by the Company complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws.

The Company takes full account of risks in the energy and commodities sector and adopts a robust approach to managing its legal obligations and responsibility towards health, safety and the environment. The Company demands a 'safety first' culture. As an owner and operator of power plants, safety is at the core of the business and great care is taken to ensure the safety of everyone on the sites, and to protect the surrounding environment. The Directors appreciate the risks involved in the energy sector and take their responsibilities extremely seriously. The Company has strong HSE policies in place and complies with international HSE standards and relevant legislation. The Company works collaboratively with its partners, who share its commitment to high international standards of operation, to try and find the best long-term solutions, which it delivers efficiently and safely.

This report was approved and authorised for issue on behalf of the board by:

D Brignall – Director

Date: 01 August 2022

VPI Power Limited

Directors' Report
for the year ended 31 December 2021

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2021.

Dividends
The Directors proposed and paid dividends for the year ended 31 December 2021 of £302.4m during the year (2020: £nil). There were no dividends declared after the year end.

Directors
The Directors shown below have held office during the year and to the date of this report except as noted:

D Brignall (appointed 31 January 2021)
SR Hale (appointed 31 January 2021)
DDW Gardiner (resigned 31 January 2021)
AK Skelton (resigned 31 January 2021)

Principal activities and future developments
The principal activities of the Company and future developments are outlined in the Strategic Report, on page 2.

Employees
The Company keeps its employees informed on matters affecting them. This is carried out in a number of ways, including formal and informal briefings and departmental meetings.

The Company is fully committed to ensuring that all current and potential future employees and contractors are treated fairly and equally, regardless of their gender, sexuality, marital status, disability, race, colour, nationality or ethnic origin. The Company provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities.

Business relationships
Disclosure in relation to the need to foster the Company's business relationships is outlined in the Directors' duty to report the success of the Company section of the Strategic Report.

Going concern
As discussed within the Strategic Report on page 5, the financial statements have been prepared on a going concern basis.

Directors' liabilities
The Company has granted an indemnity to each of its Directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in section 234 of the Companies Act 2006. Such qualifying third party indemnity provisions were in force throughout the financial year and up to the date of approving the Directors' Report. Separately, a directors and officers liability insurance policy was maintained by the shareholders of VPI Holding Limited, on behalf of the Company and its subsidiary undertakings.

Disclosure of information to auditor
So far as the Directors are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the group's auditor is unaware, and each Director has taken all the steps that he ought to have taken as a Director in order to make himself aware of any relevant audit information and to establish that the group's auditor is aware of that information.

Auditor
The auditor, Deloitte LLP will be proposed for re-appointment at the forthcoming Annual General Meeting.

This report was approved and authorised for issue on behalf of the board by:

.... Date: 01 August 2022

D Brignall - Director

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.

Independent auditor's report to the members of VPI Power Limited

Report on the audit of the financial statements

Opinion

In our opinion, the financial statements of VPI Power Limited ("the Company"):

- give a true and fair view of the state of the Company's affairs as at 31 December 2021 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Income Statement;
- the Statement of Financial Position;
- the Statement of Changes in Equity; and
- the related notes 1 to 31.

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) ("ISA"s (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.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

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

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act and tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the Company's ability to operate or to avoid a material penalty These included Electricity Act (1989), Energy Act (2013) and Climate Change and Sustainability Energy Act (2006).

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

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:

- Revenue recognition in relation to cut off: Revenues associated with sales of power are recognised when title passes to the customer. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service. Material invoices are raised around year end and if these were recorded in the incorrect accounting period that would lead to a material misstatement. To assess the appropriateness of revenue recognition in relation to cut off, we reviewed and sample tested revenue transactions one month either side of the reporting date and assessed whether they had been included in the correct accounting period. We also evaluated the design and implementation of the relevant controls related to revenue cut-off and obtained an understanding of the revenue process at financial year end.

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

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

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

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.

Marianne Milnes

Marianne Milnes FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom

Date: 01 August 2022

Deloitte LLP

VPI Power Limited

Income statement
for the year ended 31 December 2021

	Notes	Year ended 31 December 2021			Year ended 31 December 2020		
		Underlying Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m	Underlying Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m
Revenue	4	1,091.3	(122.8)	968.5	205.8	-	205.8
Cost of sales		(827.4)	15.9	(811.5)	(127.3)	-	(127.3)
Gross profit/(loss)		263.9	(106.9)	157.0	78.5	-	78.5
Operating and administrative expenses		(32.3)	-	(32.3)	(32.8)	-	(32.8)
EBITDA**		231.6	(106.9)	124.7	45.7	-	45.7
Depreciation	5	(16.1)	-	(16.1)	(20.0)	-	(20.0)
Reversal of impairment provision	14	10.6		10.6	-	-	-
Amortisation		-	-	-	(0.2)	-	(0.2)
Other gains and losses	10	19.8	-	19.8	0.5	-	0.5
Operating profit/(loss)	5	245.9	(106.9)	139.0	26.0	-	26.0
Interest receivable and similar income	8	1.6	-	1.6	0.2	-	0.2
Interest payable and similar expenses	9	(0.4)	-	(0.4)	(0.9)	-	(0.9)
Profit/(loss) before tax		247.1	(106.9)	140.2	25.3	-	25.3
Tax	11	(38.4)	-	(38.4)	(4.8)	-	(4.8)
Profit/(loss) for the financial year from continuing operations		208.7	(106.9)	101.8	20.5	-	20.5
Profit for the financial year from discontinued operations	24	-	-	-	49.9	-	49.9
Profit/(loss) for the financial year		208.7	(106.9)	101.8	70.4	-	70.4

* Underlying Performance is before unrealised movements on derivatives financial instruments.

**EBITDA 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Company. Under IFRS, this would be equivalent to operating profit less depreciation.

The notes on pages 16 to 39 form part of these financial statements.

VPI Power Limited

Statement of other comprehensive income for the year ended 31 December 2021

	Note	2021 £'m	2020 £'m
Profit for the financial year		**101.8**	**70.4**
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension scheme	27	-	(6.0)
Deferred tax on actuarial losses on defined benefit pension scheme	22	-	1.1
Other comprehensive expense net of tax		**101.8**	(4.9)
Total comprehensive income for the year		**101.8**	65.5

The notes on pages 16 to 39 form part of these financial statements.

VPI Power Limited (Registered number: SC189124)

Statement of financial position
As at 31 December 2021

	Note	2021 £'m	2020 £'m
Non-current assets			
Intangible assets	13	-	-
Property, Plant and Equipment	14	164.2	191.2
Right-of-use assets	15	20.5	5.3
Derivative financial instruments	18	2.8	-
Deferred tax assets	22	-	1.6
		187.5	198.1
Current assets			
Inventories	17	74.3	0.9
Trade and other receivables and contract-related assets	19	220.0	267.6
Derivative financial instruments	18	17.4	-
Cash and cash equivalents		14.9	0.1
		326.6	268.6
Current Liabilities			
Trade payables and contract liabilities	20	(114.8)	(78.2)
Lease liabilities	15	(3.0)	(0.8)
Derivative financial instruments	18	(125.7)	-
Current tax liability		(8.6)	-
		(252.1)	(79.0)
Net current assets		74.5	189.6
Total assets less current liabilities		262.0	387.7
Non-current liabilities			
Lease liabilities	15	(63.9)	(4.8)
Derivative financial instruments	18	(1.5)	-
Deferred taxation	22	(17.2)	-
Provisions	21	(12.2)	(13.8)
Retirement benefit obligation	27	-	(1.3)
		(94.8)	(19.9)
Net assets		167.2	367.8
Capital and reserves			
Called up share capital	23	-	-
Retained earnings		167.2	367.8
Total equity		167.2	367.8

The financial statements were approved and authorised for issue by the board and were signed on its behalf by:

D Brignall **Date:** 01 August 2022
Director

The notes on pages 16 to 39 form part of these financial statements.

VPI Power Limited

Statement of changes in equity
for the year ended 31 December 2021

	Note	Called up share capital £'m	Retained earnings £'m	Total equity £'m
At 1 January 2020		460.7	(159.2)	301.5
Profit for the year		-	70.4	70.4
Other comprehensive expense for the year		-	(4.9)	(4.9)
Total comprehensive income for the year		-	65.5	65.5
Capital reduction (1)		(460.7)	460.7	-
Movement in equity associated with share-based payments		-	0.8	0.8
At 31 December 2020		-	367.8	367.8
Total comprehensive income for the year		-	101.8	101.8
Dividends	12	-	(302.4)	(302.4)
At 31 December 2021		-	167.2	167.2

(1) On 19 November 2020, by way of special resolution, the directors of the Company carried out a capital reduction whereby 460,699,999 of ordinary £1 shares were cancelled with a resulting credit to distributable reserves of £460,699,999.

The notes on pages 16 to 39 form part of these financial statements.

1. General information

VPI Power Limited ("the Company") is incorporated in Scotland under the Companies Act 2006. The principal activity of the Company is that of power generation, as set out in the Strategic Report. The Company is a private company limited by shares and is registered at the address shown on the Company Information page.

2. Accounting policies

2.1 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention, as modified by financial instruments recognised at fair value, 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 estimates. 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 and amounts have been presented in millions ("£m").

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 payment
- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120-127 and 129 of IFRS 15 Revenue from Contracts with Customers.
- 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;
  - paragraph 118(e) of IAS 38 Intangible Assets
- the requirements of paragraphs 10(d),16, 38A, 38B, 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 Company, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs (130 (f)(ii), 130 (f)(iii), 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

Note 30 gives details of the Company's parent that includes the Company's results in its consolidated IFRS financial statements and details of where these can be obtained.

2. Accounting policies (continued)

2.3 Standards issued but not yet effective

The most significant and applicable standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Financial Statements are disclosed below. The Company intends to adopt these standards, if applicable, when they become effective.

Standard	Title	Effective for periods commencing on or after
Amendment to IFRS 16	Covid-19-Related Rent Concessions	1 June 2022
Amendments to IAS 16	Property, Plant and Equipment — Proceeds before Intended Use	1 January 2022
Amendments to IFRS 3 (May 2020)	Reference to the Conceptual Framework	1 January 2022
Amendments to IAS 37 (May 2020)	Onerous Contracts - Cost of Fulfilling a Contract	1 January 2022
Amendments to IFRS 17	Insurance contracts	1 January 2023
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred Tax relating to Assets and Liabilities arising from a Single Transaction	1 January 2023

The members do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

Adoption and impact of new standards

The Company has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2021:

- Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Phase 2) - Interest Rate Benchmark Reform.

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2. Accounting policies (continued)

2.4 Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Company to continue as a going concern. The Company's underlying cash flow is strong. After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2023, and considering the principal risks and uncertainties on page 5 including applying appropriate downside sensitivities with a focus on commodity prices, the Directors are confident that the Company has adequate resources to continue operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In particular the Directors have considered the circumstances surrounding the Covid-19 pandemic and do not deem the situation to cause significant disruption to operations or the profitability of the Company that would impact on this conclusion. The business is viewed as critical infrastructure and so recent lockdown actions have not materially impacted on the business and its ability to operate as well as the capacity of the Company to manage associated sensitivities to its forecast profitability and cash generation within its available financing and covenants.

2.5 Foreign currencies

The Company's financial statements are presented in pounds sterling, which is the Company's functional currency. All amounts are presented in millions unless otherwise stated.

Transactions in foreign currencies are initially recorded in the Company's functional currency by applying the spot exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the statement of financial position date. All differences are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates applicable on the date when the fair value was determined.

2.6 Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Revenues associated from the sale of power and ancillary income is recognised when title passes to the customer, which is when the risk of ownership passes to the purchaser, immediately upon delivery. All revenues and costs related to the trading of power are recorded on a gross basis within revenue and cost of sales. Revenue and costs related to the trading of commodities consumed in the production process are recorded on a net basis within cost of sales.

2.7 Operating profit

Operating profit is stated after charging administration costs but before finance costs and taxation charges.

2.8 Interest income

Interest income is recognised in the income statement using the effective interest method.

2.9 Finance costs

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

2. Accounting policies (continued)

2.10 Taxation

The tax expense included in the income statement comprises of both current tax and changes in net deferred tax. Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the reporting date. Income tax is charged or credited directly to equity if it relates to items that are charged or credited directly to equity. Otherwise income tax is recognised in the consolidated income statement.

Deferred tax is recognised when the tax expected to be payable or recoverable on the carrying amounts of assets and liabilities in the financial statements is different to the corresponding tax bases in the computation of taxable profit.

2.11 Dividends

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

2.12 Intangible assets – computer software

Software assets are initially measured at cost and are amortised on a straight-line basis over estimated useful lives ranging between three and five years.

2.13 Tangible fixed assets

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

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

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful economic lives (UELs) of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station). The table below shows the range of useful lives and the average useful life of an asset in the main categories of asset we own in years:

	UEL range (years)
Gas thermal plants	**2 – 38**
Plant spare parts	**7 - 18**

Freehold land, held at cost less impairments, is considered to have an unlimited useful life and is not depreciated.

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.

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.

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

2. Accounting policies (continued)

2.14 Impairment of fixed assets

Assets that are subject to depreciation or amortisation 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.

2.15 Derivative financial instruments

The Company has reviewed all significant contracts for the presence of embedded derivatives. Where contracts were found to contain embedded derivatives, they were considered to be closely related to the economic characteristic and risks of the host contract, and therefore do not require separate valuation from their host contracts.

Derivative contracts, principally commodity, are recorded in the statement of financial position at fair value, posting any movements in fair value through the income statement. Hedge accounting has not been applied.

Initial recognition and subsequent measurement
Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

2.16 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.

Emission allowances purchased are recognised at the lower of cost or net realisable value.

2.17 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.18 Financial assets

Initial recognition and measurement
Financial assets within the scope of IFRS 9 are classified as financial assets at fair value through the income statement or loans and receivables as appropriate. The Company determines the classification of its financial assets at initial recognition. All financial assets are recognised initially at fair value plus directly attributable transaction costs. The Company's financial assets include cash and short-term deposits, trade and other receivables.

Subsequent measurement
The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through the income statement
Financial assets at fair value through the income statement include financial assets held for trading and derivative financial assets. Financial assets are classified as held for trading if they are acquired for the purpose of selling or buying in the near term. Financial assets held at fair value through the income statement are carried in the statement of financial position at fair value with changes in fair value recognised in the income statement in the period in which they arise.

2. Accounting policies (continued)

Financial assets (continued)
Receivables
Other than trade receivables, receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest (EIR) method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. EIR amortisation and losses arising from impairment are recognised in the income statement in the period in which they arise.

Provision for impairment is assessed based on the expected credit losses method as defined by IFRS 9. Balances are written off when the probability of recovery is assessed as being remote. For trade receivables the practical expedient under IFRS 9 has been adopted and therefore no significant financing component is assumed within these balances.

De-recognition of financial assets
A financial asset is derecognised when (i) the rights to receive cash flows from the asset have expired or (ii) the Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass through" arrangement; and either (a) the Company has transferred substantially all the risks and rewards of the asset, or (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Impairment of financial assets
The Company assesses at each reporting date whether there is any objective evidence that a financial asset or group of financial assets is impaired using the expected credit loss model. The expected credit losses on these financial assets are estimated using a provision matrix based on the Company's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. If there is objective evidence that an impairment loss on financial assets carried at amortised cost has been incurred, the carrying amount of the asset is reduced, with the amount of the loss recognised in the income statement.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the income statement, to the extent that the carrying value of the asset does not exceed its amortised cost at the reversal date.

2.19 Financial liabilities
Initial recognition and measurement
Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through the income statement, as appropriate. The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value.

Subsequent measurement
The measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through the income statement
Financial liabilities at fair value through the income statement includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through the income statement. Financial liabilities are classified as held for trading if they are acquired for the purpose of selling or buying in the near term. Gains or losses on liabilities held for trading are recognised in the income statement.

De-recognition of financial liabilities
A liability is generally derecognised when the contract that gives rise to it is settled, sold, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in the income statement.

2. Accounting policies (continued)

2.20 Cash and short term deposits

Cash comprises of cash at banks and in hand and short term deposits with an original maturity of three months or less.

2.21 Leases

At inception of a contract, the Company assesses whether the contract is or contains, a lease. A contract is, or contains a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company reassesses whether a contract is, or contains a lease only if the terms and conditions of the contract are changed.

At the commencement date of a lease, the Company recognises a right-of-use asset and a lease liability. The right-of-use asset will be presented in the appropriate classification of property, plant and equipment to which it relates.

The Company measures the lease liability at the present value of the future lease payments. The lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Company uses its incremental borrowing rate.

For short term leases or leases for which the underlying asset is of low value, the Company recognises the lease payments as an expense when payable.

2.22 Pensions

Defined contribution pension plan

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.

Payments to defined contribution schemes are recognised as an expense when employees have rendered services that entitle them to the contributions. The income statement charge for the defined contribution scheme represents the contributions due to be paid by the Company in respect of the current period.

For the defined benefit pension scheme, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each reporting period. Remeasurement of the obligation or surplus, comprising actuarial gains and losses, the effect of the asset ceiling (if applicable) and the return on scheme assets (excluding interest), is recognised immediately in the balance sheet with a charge or credit to the statement of comprehensive income in the period in which it occurs. Defined benefit costs, including current service costs, past service costs and gains and losses on curtailments and settlements are recognised in the income statement as part of operating and administrative expenses in the period in which they occur. The net interest expense is recognised in finance costs.

2.23 Reinstatement provisions

Provisions for the future cost of decommissioning the CCGT Plant are recognised in full in the period in which the legal obligation is incurred. When the liability is initially recorded, this cost is capitalised by increasing the carrying value of the related assets.

The amount recognised is the present value of the estimated future expenditure determined in accordance with statutory conditions and requirements. The provision increases as the discount factor applied in calculating the present value of estimated future expenditure unwinds. The unwinding of the discount is included within interest payable in the income statement. The capitalised cost is depreciated as part of the overall capital costs of the related assets.

2. Accounting policies (continued)

2.24 Share-Based Payments

Prior to the change in ownership, the ultimate parent company issued equity settled share based payments (the cost of which was then recharged back to the Company at year end), to certain employees, which were 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 would ultimately vest and adjusted for the effect of non-market based vesting conditions, which are revised at each balance sheet date. There is no share based payment charge in the current year as the scheme ceased upon the sale of the Company's hydro and pumped storage assets in December 2020.

2.25 Discontinued Operations

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

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities and the amounts reported for revenues and expenses during the year. Uncertainties about these assumptions and estimates could result in outcomes that differ from those estimates. There are not considered to be any critical accounting judgements and key sources of estimation uncertainty within the Company only financial statements.

Management do not consider there to be any critical accounting judgements in the financial statements. The following estimates are considered by management to have had the most significant effect on the amounts recognised in the financial statements.

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its UEL. UEL's are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually. The carrying value of property, plant and equipment at 31 December 2021 is £148.1m (2020: £191.2m) and depreciation on these assets in the year, based on the weighted average useful economic lives was £16.1m (2020: £20.1m).

Provision for decommissioning

The Company has recognised a provision for decommissioning obligations associated with the CCGTs. In determining the fair value of the provision, assumptions and estimates, using specialist advice when appropriate, are made in relation to discount rates, the expected cost to dismantle and remove the CCGTs from the site and the expected timing of these costs. The carrying amount of the provision as at 31 December 2021 was £12.2m (2020: £13.8m). The Company estimates that the costs would be realised between 2023 and 2038 and calculates the provision using the discounted cash flow method based on key assumptions including the discount rate and inflation

Climate change

The Company continues to develop its assessment of the impact that climate change may have on the amounts recognised in the financial statements. The natural environment in which the Company operates is continually changing, and the expected impact on the Company from climate change continues to be assessed. We have considered the impact of the climate change related risks to which the Company is exposed in the preparation of these financial statements. The risks are long term in nature, and whilst they will provide a need for investment in the future, we conclude that there is no material impact on the carrying amount of assets or liabilities recognised in the financial statements, nor do they lead to any additional key sources of estimation or judgment.

4. Revenue

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

	2021 £'m	2020 £'m
Electricity sales	1,080.5	204.1
Ancillary services	10.8	1.7
Derivative movements	(122.8)	-
	968.5	205.8

Revenue comprises primarily sales of electricity generated by the Company to the electricity wholesale market in Great Britain. As such, the Company has only one business segment and one geographical segment and no further segmental analysis is presented.

Revenue from one customer amounted to £750.6m (2020: £nil) (see note 29).

During 2020, the Company sold 100% of its electrical output and other commodities directly to another company in the Drax Group.

Total revenue from discontinued operations in the period was £nil (2020: £88.5m).

5. Operating profit/(loss)

Operating profit/(loss) from continuing operations for the year is stated after charging/(crediting):

	Note	2021 £'m	2020 £'m
Depreciation of property, plant and equipment*	14	15.3	19.4
Depreciation of right-of-use assets	15	0.8	0.6
Amortisation of intangible assets	13	-	0.2
Foreign exchange		(0.1)	-
Inventories recognised as an expense		0.3	21.8

*This relates to continued operations only. See note 24 for details of discontinued operations.

6. Auditor's remuneration

Fees payable to Deloitte LLP for the audit of the annual accounts were £55,000 in 2021. The 2020 fee of £200,000 was borne by another Drax Group company, with whom it formed a group prior to the change in ownership of the Company.

7. Employees and directors

Total staff costs from continuing and discontinuing operations were as follows:

	2021 £'m	2020 £'m
Wages and salaries	9.4	12.4
Social security costs	0.9	1.5
Pension costs – defined benefit (see note 27)	(1.3)	2.5
Pension costs – defined contribution	1.6	1.1
Other costs	0.5	-
Share based payments	-	0.7
	11.1	18.2

Employee costs relating to discontinued operations total £nil (2020: £5.7m).

Average monthly numbers of employees, including the Directors, during the year was as follows:

	2021 No.	2020 No.
Administration	6	1
Plant	117	198
	123	199

During the prior year, employees were transferred to a Drax Company as part of the sale of the trade and assets of the Company's hydro and pumped storage assets.

The Directors did not receive any remuneration or pension contributions from the Company or its subsidiaries during the current or previous financial year. The Directors are remunerated by other companies outside of the Group. The element of their remuneration that is attributable to the Group cannot be reliably estimated. There are no other key management personnel.

8. Interest receivable and similar income

An analysis of the Company's interest receivable and similar income from continuing operations is as follows:

	2021 £'m	2020 £'m
Interest receivable from former Drax Group companies	-	0.1
Net interest on defined benefit scheme	-	0.1
Unwind of discount on provisions	1.6	-
	1.6	0.2

Interest receivable and similar income from discontinuing operations was £nil (2020: £0.1m).

9. Interest payable and similar expenses

An analysis of the Company's interest payable and similar charges from continuing operations is as follows:

	2021 £'m	2020 £'m
Unwind of discount on provisions	-	0.7
Interest payable on lease liabilities	0.4	0.2
Other interest payable	-	-
	0.4	0.9

Interest payable and similar charges from discontinuing operations was £nil (2020: £nil).

10. Other gains and losses

An analysis of the Company's other gains and losses from continuing operations is as follows:

	2021 £'m	2020 £'m
Gain on sale of land (note 15)	19.8	-
Gain on sale of Hydro and Pumped storage assets (note 28)	-	0.5
	19.8	0.5

Losses from discontinuing operations was £nil (2020: £nil).

11. Taxation

	2021 £'m	2020 £'m
Corporation tax charge		
Current tax on profits for the year	19.6	4.1
Adjustments in respect of previous periods	-	(0.9)
Total current tax charge for the year	19.6	3.2
Deferred tax		
Origination and reversal of temporary differences	19.2	0.8
Adjustments in respect of previous periods	-	0.9
Impact of corporation tax rate change	(0.4)	(0.1)
Total deferred tax charge for the year	18.8	1.6
Taxation on profit	38.4	4.8

Factors affecting tax charge for the year

The tax assessed for the year is higher than as (2020: the same as) the standard rate of corporation tax in the UK of 19% (2020: 19%). The differences are explained below:

	2021 £'m	2020 £'m
Profit before tax	140.2	25.3
Profit multiplied by standard rate of corporation tax in the UK of 19% (2020: 19%)	26.6	4.8
Effects of:		
Adjustments in respect of prior periods	-	-
Expenses not deductible for tax purposes	-	0.1
Deferred tax not recognised	0.9	-
Reversal of impairment loss	(2.0)	-
Profit on sale of land	(3.7)	-
Other timing differences	(0.2)	-
Roll over relief	17.2	-
Impact of rate change on deferred tax balances	(0.4)	(0.1)
Total tax charge for the year	38.4	4.8

Factors that may affect future tax charges

The Finance Bill 2021 introduced legislation to increase the main rate of corporation tax to 25% from 1 April 2023.

12. Dividends

	2021 £'m	2020 £'m
Interim dividend for the year ended 31 December 2021 of £194.9m per share (2020: £nil per share)	194.9	-
Interim dividend for the year ended 31 December 2021 of £27.5m per share (2020: £nil per share)	27.5	-
Interim dividend for the year ended 31 December 2021 of £80.0m per share (2020: £nil per share)	80.0	-
	302.4	-

13. Intangible assets

	Computer software £'m
Cost	
At 1 January 2021	10.0
Disposals	(10.0)
At 31 December 2021	-
Amortisation	
At 1 January 2021	10.0
Charge for the year	-
Disposals	(10.0)
At 31 December 2021	-
Net book value	
At 31 December 2021	-
At 31 December 2020	-

Obsolete computer software was disposed of during the year.

14. Property, plant and equipment

	Freehold property £'m	Plant, machinery, fixtures and fittings £'m	Plant Spares £'m	Assets under construction £'m	Total £'m
Cost					
At 1 January 2021	60.7	946.4	3.5	61.7	1,072.3
Additions	-	-	0.1	8.5	8.6
Transfers between Classes	-	17.9	-	(17.9)	-
Disposals	(39.3)	(0.3)	-	-	(39.6)
At 31 December 2021	21.4	964.0	3.6	52.3	1041.3
Depreciation					
At 1 January 2021	23.1	848.0	0.4	9.6	881.1
Reversal of impairment provision	(10.6)	-	-	-	(10.6)
Charge for the year	0.1	14.9	0.3	-	15.3
Disposals	(8.4)	(0.3)	-	-	(8.7)
At 31 December 2021	4.2	862.6	0.7	9.6	877.1
Net book value					
At 31 December 2021	17.2	101.4	2.9	42.7	164.2
At 31 December 2020	37.6	98.4	3.1	52.1	191.2

15. Leases

Right-of-use assets	Land and Buildings £'m
Cost	
At 1 January 2021	6.5
Additions	16.3
Remeasurements	(0.3)
At 31 December 2021	22.5
Depreciation	
At 1 January 2021	1.2
Charge for the year	0.8
At 31 December 2021	2.0
Net book value	
At 31 December 2021	20.5
At 31 December 2020	5.3

In December 2021 the Company entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek. The land was sold for net consideration of £98.0m and leased back on 12 and 15 year terms respectively. The transaction created right of use assets classified under leasehold land in property plant and equipment of £16.3m and lease liabilities of £63.5m. A profit of £19.8m was recorded on the sale.

The leases held by the Company are due to expire within 1 and 15 years and have been discounted at a rate of 5.48%.

The statement of financial position shows the following amounts relating to lease liabilities:

	2021 £'m	2020 £'m
Current	3.0	0.8
Non-current	63.9	4.8
	66.9	5.6

The income statement shows the following amounts relating to leases

	2021 £'m	2020 £'m
Depreciation	0.8	0.6
Interest expense	0.4	0.2
	1.2	0.8

15. Leases (continued)

Commitments in relation to finance leases are payable as follows:

	2021 £'m	2020 £'m
Within one year	6.7	0.8
Later than one year but not later than five years	27.9	3.2
Later than five years	62.9	2.2
Minimum lease payments	97.5	6.2
Future finance charges	(30.6)	(0.6)
Lease liabilities	66.9	5.6

The total cash outflow for leases in for the financial year was £1.8m (2020: £0.6m).

16. Fixed asset investments

On 25 January 2021, the Company sold its 100% ordinary share holding in SMW Limited to Drax Hydro Limited for consideration equal to its carrying value of £2. No gain or loss arose on the sale.

As at 31 December 2021, the Company held no fixed asset investments.

17. Inventories

	2021 £'m	2020 £'m
Consumables	0.8	0.9
Emission allowances	73.5	-
	74.3	0.9

18. Derivatives

The Company enters into derivative financial instruments with various counterparties, principally energy companies. Derivatives, which are valued using valuation techniques with market observable inputs, comprise of commodity forward contracts. The models used incorporate various inputs including the credit quality of counterparties, interest rate curves and forward rate curves of the underlying commodity.

Financial assets at fair value through income statement

	2021 £'m	2020 £'m
Due within one year		
Commodity forward contracts	17.4	-
Due after one year		
Commodity forward contracts	2.8	-

Financial liabilities at fair value through income statement

	2021 £'m	2020 £'m
Due within one year		
Commodity forward contracts	125.7	-
Due after one year		
Commodity forward contracts	1.5	-

19. Trade and other receivables: Amounts falling due within one year

	2021 £'m	2020 £'m
Trade receivables	39.2	4.9
Amounts owed by group undertakings	149.7	209.3
Amounts owed by related parties (note 29)	9.1	-
Prepayments and accrued income	17.8	51.0
Other tax and social security	4.2	2.2
Contract assets	-	0.2
	220.0	267.6

Trade debtors and amounts due from related parties and group undertakings are non-interest bearing and are generally on terms of 30 to 45 days. As at 31 December 2021, as well as the previous year end, no trade receivables or other receivables were overdue, nor were they impaired or provided for. All amounts were received from customers after the statement of financial position date. The carrying value of the trade receivables is their fair value.

An impairment analysis is performed at each reporting date on an individual basis for customers. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above.

The Company does not hold collateral security. The Company evaluates concentration risk with respect to trade receivables as high, as its significant customers are few in number. However these customers are in longer term contractual arrangements with the Company.

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

20. Trade and other payables: Amounts falling due within one year

	2021 £'m	2020 £'m
Trade payables	4.2	5.9
Amounts owed to group undertakings	11.1	15.3
Amounts owed to related parties (note 29)	0.1	-
Social security and other taxes	0.2	-
Accruals	99.2	43.8
Contract liabilities	-	13.2
	114.8	78.2

Trade creditors are non-interest bearing and are normally settled on 30 - 45 day terms. The carrying value of current creditors is the same as their fair value.

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

Accruals relate mainly to accrued carbon credits for the full financial year

21. Provisions

	Decommissioning £'m
At 1 January 2021	13.8
Unwinding of discount	(1.6)
At 31 December 2021	12.2

The decommissioning obligation in respect of the CCGT Plants has been estimated using the present value of future decommissioning costs, inflated using relevant long-term inflation rates and discounted at an applicable risk free interest rate. Management have undertaken an exercise to revalue the provision during the year reflecting the best available evidence of the expected costs to be incurred in future periods. As in the preceding year, no decommissioning costs are currently expected to be incurred within the next year. The effect of discounting recognised is being unwound over periods from 2023 to 2038.

Included within unwinding of discount is £(1.7)m relating to the adjustment for changes in assumptions (2020: £0.6m) as a result of revaluing the provision.

22. Deferred tax

	2021 £'m	2020 £'m
Asset at beginning of year	1.6	5.8
Charged to the income statement	(18.8)	(5.3)
Credited to equity	-	1.1
(Liability)/asset at the end of year	(17.2)	1.6

The deferred tax (provision)/asset is made up as follows:

	2021 £'m	2020 £'m
Accelerated capital allowances	-	1.4
Other timing differences	(17.2)	0.2
	(17.2)	1.6

23. Share capital

	2021 £'m	2020 £'m
Shares classified as equity		
1 (2020: 1) Ordinary shares of £1 each	-	-

24. Discontinued Operations

Following the sale of the trade and assets on 16 December 2020, as described in note 28, the income and expenses of the hydro assets have been classified as discontinued operations as follows:

	2020 £'m
Revenue	88.5
Cost of Sales	(7.1)
Gross Profit	81.4
Operating and administrative expenses	(17.3)
EBITDA	64.1
Depreciation	(2.5)
Amortisation	(0.1)
Other gains and losses	-
Operating Profit	61.5
Interest receivable and similar income	0.1
Profit before tax on discontinued operations	61.6
Tax on Profit	(11.7)
Profit after tax on discontinued operations	49.9

25. Share-based payments

Equity-settled share option schemes
In the prior year the Company participated in a share option scheme for employees, which was operated by another Drax Company (with whom it formed a group prior to the Company's change in ownership); the Savings-Related Share Option Plan (SAYE) for all qualifying employees. This ceased upon the sale of Company's hydro and pumped storage assets in December 2020. As at 31 December 2021 the Company did not participate in any share option schemes.

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

	2021 £'m	2020 £'m
SAYE Plan	-	0.9

Savings-Related Share Option Plan (SAYE)
In March 2020, participation in the SAYE plan was offered again to all qualifying employees. Options were granted for employees to acquire shares at a price of 127 pence, representing a discount of 20% to the prevailing market price determined in accordance with the scheme rules. The options are exercisable at the end of three or five-year savings contracts.

No SAYE options were exercised in the prior period.

26. Contingent liabilities

Guarantees and Letters of Credit amounting to £11.9m (2020: £nil) have been made to the Company's suppliers. These obligations lapse on settlement of contractual arrangements.

27. Retirement Benefit Obligations

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 £1.6m (2020: £1.1m). Contributions amounting to £nil (2020: £nil) were payable to the fund at the balance sheet date and included in creditors. The Company has no further payment obligations once the contributions have been paid.

Defined benefit scheme
The Company operated a defined benefit pension scheme from 2019. Under the Scheme, employees were entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death).

On 15 December 2020 it was announced that an agreement for the sale of the Company's CCGT assets and business to VPI Generation Limited had been reached. As part of the completion process, the proportion of the defined benefit pension obligation relating to the Hydro employees and employees of the Company's direct subsidiary SMW Limited was transferred to another Drax Group Company, with whom the Company formed a group at the time. The Scheme remained open for remaining employees however ceased upon the change in company ownership on 31 January 2021.

No other post-retirement benefits are provided.

The Company operated the Scheme under the UK regulatory framework. Benefits were paid to members from trustee-administered funds, who were responsible for ensuring that the Scheme is sufficiently funded to meet current and future benefit payments. Scheme assets were held in trusts separate to the Company.

The net surplus/obligation recognised in the balance sheet in respect of the Drax 2019 Scheme is the difference between the estimated fair value of the plan assets and the present value of the defined benefit obligation:

	2021 £'m	2020 £'m
Reconciliation of present value of plan liabilities:		
At the beginning of the year	57.3	45.6
Finalisation of transfer values	(57.3)	-
Current service cost	-	2.8
Employee contributions	-	0.1
Interest cost on plan liabilities	-	1.0
Actuarial losses	-	7.8
At the end of the year	-	57.3

27. Retirement Benefit Obligations (continued)

The actuarial losses of £nil (2020: £7.8m) reflect losses of £nil (2020: £7.7m) arising from changes in financial assumptions and gains of £nil (2020: £0.1m) from scheme experience. The losses due to changes in financial assumptions principally reflect the increase in the present value of the scheme liabilities arising as a result in the change in discount rate assumption to -% (2020: 1.5%) following decreases in corporate bond yields.

	2021 £'m	**2020 £'m**
Reconciliation of fair value of plan assets:		
At the beginning of the year	56.0	49.5
Finalisation of transfer values	(56.0)	-
Remeasurement gains	-	2.1
Employer contributions	-	3.2
Employee contributions	-	0.1
Interest income on plan assets	-	1.1
At the end of the year	-	56.0

	2021 £'m	**2020 £'m**
Defined benefit obligation	-	(57.3)
Fair value of plan assets	-	56.0
Net deficit recognised in the balance sheet	-	(1.3)

	2021 £'m	**2020 £'m**
The amounts recognised in the income statement are as follows:		
Finalisation of transfer values	(1.3)	-
Current service cost	-	2.8
Interest on net defined benefit asset	-	(0.1)
Costs of managing plan assets	-	0.3
Total (income)/expense recognised in the Income Statement	(1.3)	3.0

	2021 £'m	**2021 £'m**
The amounts recognised in other comprehensive income are as follows:		
Remeasurement gains on plan assets (excluding costs of managing plan assets)	-	1.8
Actuarial losses on plan liabilities	-	(7.8)
Total expense recognised in other comprehensive income	-	(6.0)

28. Sale of trade and assets

On 16 December 2020, the Company entered into an agreement with Drax Power Limited (a Group company prior to the restructure) for the sale of the trade and assets of the Company's generation businesses at Cruachan, Lanark and Galloway (collectively referred to in these accounts as the hydro and pumped storage assets). Consideration for the sale was £80.0m to be settled by adjusting intra-Company balances. Prior to the settlement of the amount outstanding, the Company distributed the receivable to its parent company at the time, Drax Smart Generation Holdco Limited, as part of a reorganisation prior to the Company's sale to VPI Generation Limited. The gain arising on sale of £0.5m was calculated as follows:

	2020 **£m**
Consideration received	80.0
Net Book Value of Net Assets transferred	(79.5)
Gain on sale	0.5

Net Book Value of Net Assets transferred	**2020** **£m**
Property, Plant and Equipment	73.3
Inventories	0.2
ROC assets	5.2
Trade and other receivables and contract-related assets	4.4
Trade payables, other payables and contract liabilities	(4.6)
Drax Company intercompany receivable balances	1.0
	79.5

29. Related party transactions

The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries.

VPI Power Limited, an indirect subsidiary, has entered into arm's length energy trading arrangement with Vitol SA, a subsidiary of Vitol Holding BV. Related party energy trading included in turnover is £750.6m (2020: £nil) and cost of goods sold is £670.5m (2020: £nil).

Included in note 19 is £9.1m (2020: £nil) owed from Vitol SA and included in note 20 is £0.1m (2020: £nil) owed to Vitol SA and the shareholders of VPI Holding Limited. These are trading balances.

30. Ultimate parent undertaking and controlling party

The Company's immediate parent Company is VPI Generation Limited, a company registered in England and Wales.

The Company's ultimate parent undertaking is VPI Holding Limited, a Company registered in England and Wales.

There is no ultimate controlling party.

VPI Holding Limited is the parent undertaking of the smallest and largest group of undertakings for which group financial statements will be drawn up for the year ended 31 December 2021, and of which the Company is a member. Copies of the 2021 consolidated financial statements can be obtained from VPI Holding Limited's registered office address; 4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB.

31. Post Balance Sheet events

On 24 February 2022 hostilities broke out between the Russian Federation and Ukraine, to date we have only witnessed a marginal impact from this on our supply chains or cost base but continue to monitor this closely.