

REGISTERED NUMBER: SC189124 (Scotland)

Annual report and audited financial statements

for the year ended 31 December 2020

For

**VPI Power Limited
(Formerly Drax Generation Enterprise Limited)**



VPI Power Limited

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VPI Power Limited

Company information for the year ended 31 December 2020

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

VPI Power Limited

Strategic Report for the year ended 31 December 2020

The Directors present their Strategic Report for VPI Power Limited ("the Company") for the year ended 31 December 2020.

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 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.

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). Consideration for the sale was £80 million.

Following this restructure, 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.

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.

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.

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 £20.5m (2019: £20.0m) and discontinued operations was £49.9m (2019: £55.0m).

Non-current assets decreased from £244.8m to £191.2m as a result of disposing of property, plant and equipment with a net book value of £73.3m as part of the restructure. Net current assets increased from £59.7m to £189.6m due to a receivable from Group of £80.0m for the restructure consideration and the corporation tax liability having been settled at the balance sheet date (31 December 2019: liability £18.2m).

Summary of key performance indicators

The profit and loss account presents results from the continued operations of the CCGT power stations. The results related to the hydro and pumped storage assets sold as part of the restructure are presented as a line item in the profit and loss account with details provided in note 24.

The Company's key financial performance indicators for continued operations during the year were as follows:

	2020 £'000	2019 £'000	Change %
Revenue	205.8	245.8	(16.3)
Gross profit	78.5	68.7	14.3
EBITDA*	45.7	39.1	16.9

*EBITDA – 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Company.

**Strategic Report
for the year ended 31 December 2020**

Summary of key performance indicators (continued)

Revenue decreased from 2019 due to a reduction in electricity demand due to Covid-19. There was also a significant planned outage at Damhead Creek for 3 months of the year. The Company saw increased margins due to increased revenue from balancing services and lower cost of sales due to lower generation.

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.

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.

Brexit

In December 2020, the EU and UK agreed a trade and cooperation agreement which set out objectives for continued collaboration around energy. From the 1st January 2021, the UK established its own Emission Trading Scheme ("ETS"), with the first auction taking place on the 19 May 2021. The UKETS closely replicates the EUETS, however at this time the price is not linked.

The Company has taken appropriate measures to mitigate any risk as a result of this change.

**Strategic Report
for the year ended 31 December 2020**

Covid-19

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:

- regular lateral flow testing regime for key workers;
- 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 governments social distancing guidelines. Where the social distancing guidelines couldn't be followed in full the 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 in 2020, 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 2021, 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. The Company has an Environmental Management System externally certified to ISO 14001, 2015. The majority of power consumed in 2020 was generated on site with 39,424 MW additional energy imported from National Grid. The total amount of natural gas used for generation activities was 20,233 TJ. The CCGT power stations are efficient gas fired and therefore emits CO₂ from the generation process. The CO₂ emitted for 2020, as verified under the EU Emissions Trading Scheme, was 1,133,713 t CO₂(e), this figure includes emissions from transport used on site.

Post Balance Sheet Events

On 15 December 2020, the Drax Group plc announced that it had reached agreement for the sale of the Company's CCGT assets and business to VPI Generation Limited. Following the announcement, the Hydro assets and employees working at the Hydro and pumped storage plants were transferred to another Drax Group company. 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 previously direct subsidiary SMW Limited was transferred to another Drax Group Company. Due to the timing of the legal process, the obligation of £1.1 million was not transferred until January 2021.

Subsequent to the year end, in January 2021, the Company declared dividends totaling £194.8 million which settled the outstanding intercompany balances.

In January 2021 the Company sold its entire shareholding in SMW Limited to another Drax Company entity for consideration of £2.

The sale of the Company subsequently completed on 31 January 2021. Following the completion, the Company ceased to be a part of the Drax Group and the Company's immediate parent undertaking became VPI Generation Limited.

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 2022, 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.

**Strategic Report
for the year ended 31 December 2020**

Going concern (continued)

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. Whilst the outbreak has led to a reduction in demand for power generation and some volatility in the associated markets the Directors have actively considered these impacts on the business and counterparties and are confident that any disruption arising can be managed appropriately through contingency measures. Supporting this is that 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.

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.

Our dialogue with employees includes regular communication about the Company's strategy, plans and performance. During 2020, 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 counterparties, and monitor these on an ongoing basis, as appropriate.

**Strategic Report
for the year ended 31 December 2020**

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)

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: 22 September 2021

VPI Power Limited

Directors' Report for the year ended 31 December 2020

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2020.

Dividends

The Company proposed and paid dividends of £nil in respect of the year ended 31 December 2020 (2019: £nil). Subsequent to the year end, in January 2021, the Company declared dividends totaling £194.8 million.

Directors

The Directors shown below have held office since 1 January 2020 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)

A Koss (resigned 7 April 2020)

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 4.

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 4, 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.

Statement as to 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 Company'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 Company's auditor is aware of that information.

VPI Power Limited

Directors' Report. for the year ended 31 December 2020

Auditor

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

This report has been prepared in accordance with the provisions of Part 15 of the Companies Act 2006 relating to small companies.

The Company has taken the exemption available to small companies under Section 414B of the Companies Act 2006 from preparing a Strategic report.

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



Date: 22 September 2021

D Brignall - Director

**Directors' responsibilities statement
for the year ended 31 December 2020**

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; 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.

VPI Power Limited

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 2020 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 Other Comprehensive Income;
- the Balance Sheet;
- the Statement of Changes in Equity; and
- the related notes 1 to 32.

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.

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

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

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

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

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

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

VPI Power Limited

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

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.



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

Date: 22 September 2021

Deloitte LLP

VPI Power Limited

Income statement for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Revenue	4	205.8	245.8
Cost of sales		(127.3)	(177.1)
Gross profit		78.5	68.7
Operating and administrative expenses		(32.8)	(29.6)
EBITDA		45.7	39.1
Depreciation	5	(20.1)	(15.2)
Amortisation		(0.1)	(0.3)
Other gains and losses	11	0.5	1.6
Operating profit	5	26.0	25.2
Interest receivable and similar income	9	0.2	0.1
Interest payable and similar expenses	10	(0.9)	(1.0)
Profit before tax from continuing operations		25.3	24.3
Tax on profit	12	(4.8)	(4.3)
Profit for the financial year from continuing operations		20.5	20.0
Profit for the financial year from discontinued operations	24	49.9	55.0
Profit for the financial year		70.4	75.0

EBITDA is defined as profit before interest, tax, depreciation (including gains on disposal of assets), amortisation, and other gains and losses.

2019 figures have been re-presented for the impact of discontinued operations accounting in relation to the transfer of the Hydro assets to another Drax Company company.

The notes on pages 19 to 41 form part of these financial statements.

VPI Power Limited

Statement of other comprehensive income for the year ended 31 December 2020

	Note	2020 £m	2019 £m
Profit for the financial year		70.4	75.0
Items that will not be reclassified subsequently to profit or loss:			
Actuarial losses on defined benefit pension scheme	27	(6.0)	(1.1)
Deferred tax on actuarial losses on defined benefit pension scheme	21	1.1	0.2
Other comprehensive expense net of tax		(4.9)	(0.9)
Total comprehensive income for the year		65.5	74.1

The notes on pages 19 to 41 form part of these financial statements.

VPI Power Limited (Registered number: SC189124)

**Statement of financial position
As at 31 December 2020**

	Note	2020 £m	2019 £m
Non-current assets			
Intangible assets	13	-	0.2
Property, Plant and Equipment	14	191.2	244.8
Right-of-use assets	15	5.3	5.1
Retirement benefit surplus	27	-	3.9
Deferred tax assets	21	1.6	5.8
		<u>198.1</u>	<u>259.8</u>
Current assets			
Inventories	17	0.9	1.1
ROC assets	19	-	5.3
Trade and other receivables and contract-related assets	18	267.6	134.0
Cash and cash equivalents		0.1	0.1
		<u>268.6</u>	<u>140.5</u>
Current Liabilities			
Trade payables and contract liabilities	20	(78.2)	(62.1)
Lease liabilities	15	(0.8)	(0.5)
Current tax liability		-	(18.2)
		<u>(79.0)</u>	<u>(80.8)</u>
Net current assets		<u>189.6</u>	<u>59.7</u>
Total assets less current liabilities		<u>387.7</u>	<u>319.5</u>
Non-current liabilities			
Lease liabilities	15	(4.8)	(4.7)
Provisions	22	(13.8)	(13.3)
Retirement benefit obligation	27	(1.3)	-
		<u>(19.9)</u>	<u>(18.0)</u>
Net assets		<u>367.8</u>	<u>301.5</u>
Capital and reserves			
Called up share capital	23	-	460.7
Retained earnings		367.8	(159.2)
Total equity		<u>367.8</u>	<u>301.5</u>

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

D Brignall
Director



Date: 22 September 2021

The notes on pages 19 to 41 form part of these financial statements.

VPI Power Limited

Statement of changes in equity for the year ended 31 December 2020

	Called up share capital £m	Retained earnings £m	Total equity £m
At 1 January 2019	460.7	(233.5)	227.2
Profit for the year	-	75.0	75.0
Other comprehensive expense for the year	-	(0.9)	(0.9)
Total comprehensive income for the year	-	74.1	74.1
Movement in equity associated with share-based payments	-	0.2	0.2
At 31 December 2019	460.7	(159.2)	301.5
Profit for the financial 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	(460.7)	460.7	-
Movement in equity associated with share-based payments	-	0.8	0.8
At 31 December 2020	-	367.8	367.8

The notes on pages 19 to 41 form part of these financial statements.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

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").

Exemption from preparing consolidated accounts

The Company is a wholly owned subsidiary of another company incorporated in the UK and in accordance with Section 400(1)(a) of the Companies Act 2006, is not required to produce consolidated accounts.

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.

This information, where material, is included in the consolidated financial statements of Drax Group plc as at 31 December 2020 and these financial statements may be obtained from Drax Power Station, Selby, North Yorkshire YO8 8PH.

**Notes to the financial statements
for the year ended 31 December 2020**

2. Accounting policies (continued)

2.3 Going concern

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

The new Directors of the Company have conducted cash flow forecasts and modelling for the CCGTs to end of their useful economic lives, they are comfortable, that the Company is expected to continue to generate positive cash flows on its own account for the foreseeable future.

The Directors have no reason to believe that a material uncertainty exists that may cast significant doubt about the ability of the Company to continue as a going concern or its ability to continue with the current banking arrangements.

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. Whilst the outbreak has led to a reduction in demand for power generation and some volatility in the associated markets the Directors have actively considered these impacts on the business and counterparties and are confident that any disruption arising can be managed appropriately through contingency measures. Supporting this is that 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.

On this basis, 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 of accounting in preparing the annual financial statements, as set out in further detail on page 9 of the Directors' Report.

2.4 Revenue

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

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

Revenues from sales of Renewable Obligation Certificates (ROCs) are stated at the invoiced value, net of VAT. Revenue is recognised when the ROC is transferred to the account of that third party.

2.5 Interest income

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

2.6 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.

2.7 Intangible assets – CO₂ emissions allowances

Carbon assets arise upon the purchase of CO₂ emissions allowances in excess of the amount allocated and required for the current financial year and are recognised at cost, net of any impairment. Given their short tenor, carbon assets are not amortised.

The charge to the income statement, within fuel costs, reflects the cost of emissions allowances required to satisfy our obligation for the current year and takes into account generation and market purchases allocated to the current financial year and, to the extent further purchases are required, the market price at the balance sheet date.

Notes to the financial statements
for the year ended 31 December 2020

2. Accounting policies (continued)

2.8 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.

2.9 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.

On 16th December 2020, the Hydro-electric plants were transferred to Drax Power Limited, further detail can be found in note 11.

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.

2.10 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.

2.11 Inventories

Inventories are valued at the lower of the weighted average cost to purchase and net realisable value.

The cost of inventories includes all direct costs and overheads incurred in bringing the inventory to its present location and condition, including the purchase price and other taxes.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

2. Accounting policies (continued)

2.12 ROC assets

ROCs are recognised as current assets in the period they are generated and are initially measured at fair value based on anticipated sales prices. The value of ROCs earned is recognised in the income statement as a reduction in fuel costs in that period.

At each reporting date the Company reviews the fair value of ROC assets generated but not sold against updated anticipated sales prices including, where relevant, agreed forward sale contracts. Any impairments required are recognised in the income statement in the period incurred.

Following the transfer of the Hydro-electric plants to Drax Power Limited on 16th December 2020, as detailed in note 11, the Company ceases to have any ROC generating assets.

2.13 Trade and other receivables

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

Financial assets are classified into the following specific categories under IFRS 9: financial assets at 'fair value through profit or loss', financial assets at 'fair value through other comprehensive income' and financial assets at 'amortised cost'.

The Trade receivables require payment only of fixed amounts on fixed dates.

2.14 Trade and other payables

Trade payables represent amounts to suppliers (for trade purchases and ongoing costs), tax authorities, other payables that are due to be paid in the ordinary course of business, and accrual amounts that will fall due for payment in the future as a result of activities in the current year. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.15 Reserves

The Company's capital and reserves are as follows:

Share capital

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

Retained earnings

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

2.16 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. Dividends on shares recognised as liabilities are recognised as expenses and classified within interest payable.

2.17 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.

**Notes to the financial statements
for the year ended 31 December 2020**

2. Accounting policies (continued)

Defined benefit pension plan (continued)

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.

2.18 Reinstatement provisions

A provision is made for the estimated decommissioning costs at the end of the UEL of the Company's generating assets, when a legal or constructive obligation arises, on a discounted basis. The amount provided is calculated on a site-by-site basis and represents the present value of the expected costs. No allowance is made within the provision for expected proceeds on disposal of scrap or assets to third parties, as the uncertainty over market prices at the estimated decommissioning date mean such an asset would not be virtually certain at the balance sheet date. The discount rate used is a risk-free pre-tax rate, reflecting the fact that the estimated future cash flows have built in risks specific to the liability. An amount equivalent to the initial discounted provision is capitalised within non-current assets (property, plant and equipment) and is depreciated over the useful lives of the related assets. The unwinding of the discount is included in interest payable and similar charges.

2.19 Current and deferred taxation

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

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

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

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

Deferred tax balances are not recognised in respect of permanent differences. Deferred tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

2.20 Foreign Currency

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

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

2.21 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.

**Notes to the financial statements
for the year ended 31 December 2020**

2. Accounting policies (continued)

2.22 Leases

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

The right-of-use asset is initially measured at cost and is subsequently measured at cost less accumulated depreciation and accumulated impairment losses.

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

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

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

2.23 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. Judgements in applying accounting policies and key sources of estimation uncertainty

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

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

The judgements involving a higher degree of estimation or complexity are set out below in more detail, including sensitivity analysis where appropriate, in the related notes.

Critical accounting judgements

We do not consider there to be any judgements that carry a significant risk of an outcome that would differ from the amount recognised in the financial statements.

Sources of estimation uncertainty

The following are the sources of estimation uncertainty that carry a significant risk of a material effect on next year's accounts – that is, the items where actual outcomes in the next 12 months could vary significantly from the estimates made in determining the reported amount of an asset or liability.

Notes to the financial statements for the year ended 31 December 2020

3. Judgements in applying accounting policies and key sources of estimation uncertainty (continued)

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 2020 is £191.2 million and depreciation on these assets in the year, based on the weighted average useful economic lives was £21.9 million.

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 2020 was £13,800,000 (2019: £13,100,000). The Company estimates that the costs would be realised between 2022 and 2035 and calculates the provision using the discounted cash flow method based on key assumptions including the discount rate and inflation

Pensions – measurement of the defined benefit obligation using the projected unit credit method involves the use of key assumptions, including discount rates, inflation rates, salary and pension increases, and mortality rates. These actuarial assumptions are reviewed annually and modified as appropriate.

The Company believes that the assumptions utilised in measuring obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

The value of the pension obligation recognised by the Company at 31 December 2020 is £1.3 million. Sensitivities in the valuation are discussed in note 27.

4. Revenue

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

	2020 £m	2019 £m
Electricity sales	204.1	241.6
Ancillary services	1.7	3.7
Other income	-	0.5
	<u>205.8</u>	<u>245.8</u>

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.

During the current year, 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 £88.5 million (2019: £90.7 million).

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

5. Operating profit

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

		2020	2019
	Note	£m	£m
Depreciation of property, plant and equipment*	14	19.4	14.6
Depreciation of right-of-use assets	15	0.6	0.6
Amortisation of intangible assets	13	0.2	0.3
Inventories recognised as an expense		21.8	25.0

*This relates to continued operations only, Note 14 Property, Plant and equipment discloses total depreciation of £21.9 million, 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 £0.2 million in 2020 and borne by another Drax Group company (2019 £0.2million).

7. Employees

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

	2020	2019
	£m	£m
Wages and salaries	12.4	11.3
Social security costs	1.5	1.2
Pension and other costs	3.6	2.2
Share based payments	0.7	0.2
	18.2	14.9

The total pension charge for the year amounted to £3.6 million (2019: £2.2 million).

Employee costs relating to discontinued operations total £5.7 million (2019: £5.4 million).

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

	2020	2019
	No.	No.
Operations	198	176
Business services	1	16
	199	192

During the year, as part of a Group employee restructure, core service employees were transferred to another Drax Group Company.

**Notes to the financial statements
for the year ended 31 December 2020**

8. Directors' remuneration

The Directors are remunerated for services rendered to the Company and its subsidiary undertaking as a whole and it is not practicable to allocate these amounts to specific subsidiary undertakings.

There were no other transactions with Directors for the periods covered by these financial statements.

9. Interest receivable and similar income

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

	2020 £m	2019 £m
Interest receivable from Drax Group companies	0.1	-
Net interest on defined benefit scheme	0.1	0.1
	<u>0.2</u>	<u>0.1</u>

Interest receivable and similar income from discontinuing operations was £0.1 million (2019: £0.1 million)

10. Interest payable and similar charges

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

	2020 £m	2019 £m
Unwind of discount on provisions	0.7	0.7
Interest payable on lease liabilities	0.2	0.2
Other interest payable	-	0.1
	<u>0.9</u>	<u>1.0</u>

Interest payable and similar charges from discontinuing operations was £nil (2019: £nil).

11. Other (gains) and losses

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

	2020 £m	2019 £m
Integration costs	-	0.8
Insurance proceeds	-	(2.4)
Gain on sale of Hydro and Pumped storage assets (note 29)	(0.5)	-
	<u>(0.5)</u>	<u>(1.6)</u>

Losses from discontinuing operations was £nil (2019: £1 million).

**Notes to the financial statements
for the year ended 31 December 2020**

12. Taxation

	2020	2019
	£m	£m
Corporation tax charge		
Current tax on profits for the year	4.1	3.6
Adjustments in respect of previous periods	(0.9)	0.7
Total current tax charge for the year	3.2	4.3
Deferred tax		
Before impact of corporation tax rate change	0.8	0.6
Adjustments in respect of previous periods	0.9	(0.4)
Impact of corporation tax rate change	(0.1)	(0.2)
Total deferred tax charge for the year	1.6	-
Taxation on profit	4.8	4.3

Factors affecting tax charge for the year

The tax assessed for the year is the same as (2019: lower than) the standard rate of corporation tax in the UK of 19.00% (2019: 19.00%). The differences are explained below:

	2020	2019
	£m	£m
Profit before tax	25.3	24.3
Profit multiplied by standard rate of corporation tax in the UK of 19.00% (2019: 19.00%)	4.8	4.6
Effects of:		
Adjustments in respect of prior periods	-	0.3
Expenses not deductible for tax purposes	0.1	(0.4)
Impact of rate change on deferred tax balances	(0.1)	(0.2)
Total tax charge for the year	4.8	4.3

Factors that may affect future tax charges

The Finance Act 2015 included legislation to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. In addition, the Finance Act 2016 included legislation to reduce the rate of UK corporation tax to 17% from 1 April 2020. Subsequently, on 11 March 2020, the Chancellor announced that this corporate tax rate reduction to 17% will be cancelled and the main rate of corporate tax will remain at 19%.

A further announcement was made by the Chancellor on 3 March 2021 to increase the main rate of corporation tax to 25% from April 2023.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

13. Intangible assets

	Computer software £m
Cost	
At 1 January 2020	10.5
Transfers to another Drax Group company	(0.5)
	<hr/>
At 31 December 2020	10.0
	<hr/>
Amortisation	
At 1 January 2020	10.3
Charge for the year	0.2
Transfers to another Drax Group company	(0.5)
	<hr/>
At 31 December 2020	10.0
	<hr/>
Net book value	
At 31 December 2020	-
	<hr/>
At 31 December 2019	0.2
	<hr/> <hr/>

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

14. Tangible fixed assets

	Freehold property £m	Plant, machinery, fixtures and fittings £m	Plant Spares £m	Assets under construction £m	Total £m
Cost					
At 1 January 2020	80.3	1,081.7	2.9	43.3	1,208.2
Additions	-	-	1.0	41.1	42.1
Issues>Returns to maintenance projects	-	-	(0.5)	-	(0.5)
Transfers between Classes (1)	-	16.5	-	(16.5)	-
Transfers to and from other Drax Group companies (2)	(19.6)	(151.8)	0.1	(6.2)	(177.5)
At 31 December 2020	60.7	946.4	3.5	61.7	1,072.3
Depreciation					
At 1 January 2020	37.9	914.9	0.1	10.5	963.4
Charge for the year	0.2	21.4	0.3	-	21.9
Transfers between Classes (1)	-	0.6	-	(0.6)	-
Transfers to and from other Drax Group companies (2)	(15.0)	(88.9)	-	(0.3)	(104.2)
At 31 December 2020	23.1	848.0	0.4	9.6	881.1
Net book value					
At 31 December 2020	37.6	98.4	3.1	52.1	191.2
At 31 December 2019	42.4	166.8	2.8	32.8	244.8

- (1) Transfers between classes reflects the capitalisation of work in progress from Assets under construction to other categories of fixed assets at the point construction is complete and the asset is ready for use relates to the capitalisation of work-in-progress from Assets under construction to capitalised tangible fixed assets.
- (2) On 16 December 2020, the Company transferred the trade and assets of the Hydro assets to another Drax Group company, Drax Power Limited. The net book value of Tangible Fixed Assets transferred as part of this transaction was £73.3 million. Further details can be found in note 29. In a separate transaction, plant spare parts were transferred from another Drax Group company to the Damhead Creek Power Station with a net book value of £0.2million.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

15. Leases

Right-of-use assets	Land and Buildings £m
Cost	
At 1 January 2020	5.7
Additions	0.1
Remeasurements	0.7
	<hr/>
At 31 December 2020	6.5
	<hr/>
Depreciation	
At 1 January 2020	0.6
Charge for the year	0.6
	<hr/>
At 31 December 2020	1.2
	<hr/>
Net book value	
At 31 December 2020	5.3
	<hr/>
At 31 December 2019	5.1
	<hr/>
Liabilities	
	Land and Buildings £m
Carrying amount	
At 1 January 2020	5.2
Additions	0.1
Interest	0.2
Payments	(0.6)
Remeasurements	0.7
	<hr/>
At 31 December 2020	5.6
	<hr/>
	£m
Due within less than 1 year	0.8
Due in greater than 1 year	4.8
	<hr/>
	5.6
	<hr/>

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

16. Fixed asset investments

The following were direct subsidiary undertakings of the Company at 31 December 2020:

Name	Class of share	Holding	Principal activity
SMW Limited	Ordinary	100%	Fuel supply

The address of the registered office of this subsidiary is the same registered address as can be found on the Company information page.

Subsequent to the balance sheet date, on 25 January 2021, the Company sold its investment in SMW Limited to Drax Hydro Limited for consideration equal to its carrying value of £2. No gain or loss arose on the sale. Further information can be found in note 32.

17. Inventories

	2020 £m	2019 £m
Consumables	0.9	1.1

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

	2020 £m	2019 £m
Trade receivables	4.9	2.3
Amounts owed by Drax Group undertakings	209.3	67.2
Prepayments and accrued income	51.0	58.6
Other tax and social security	2.2	2.5
Contract assets	0.2	3.4
	267.6	134.0

The amounts owed by Drax Group undertakings include short term trading balances which are unsecured, interest free and settled under normal payment terms. Amounts owed to Drax 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. Following the purchase of the Company's share capital by VPI Generation Limited on 31 January 2021, the Company settled all balances owing between itself and companies in the Drax Group on 29 January 2021.

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

The Company deems any provision for expected credit losses to be immaterial. Assumptions made regarding the recoverability of balances have been determined with reference to past default experiences in line with our policies and future prospects reflecting our understanding of our customer base. Specific balances are provided against where default events have occurred. Balances are only written off if deemed irrecoverable after all credit control procedures have been exhausted or the customer is in administration.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

19. ROC assets

	£m
Balance at 1 January 2020	5.3
Generated	9.0
Sold	(9.1)
Transfers to another Drax Group company (note 29)	(5.2)
	<hr/>
Balance at 31 December 2020	<hr/>

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

	2020 £m	2019 £m
Trade payables	5.9	12.6
Amounts due to Drax Group companies	15.3	30.9
Other creditors	-	0.1
Accruals	43.8	16.9
Contract Liabilities	13.2	1.6
	<hr/>	<hr/>
	78.2	62.1
	<hr/>	<hr/>

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

21. Deferred taxation

The movements in deferred tax assets and liabilities during each year are shown below. Deferred tax assets and liabilities are offset as there is a legally enforceable right of offset and there is an intention to settle the balances net

	Accelerated Capital Allowances £m	Other assets £m	Total £m
At 1 January 2020	6.5	(0.7)	5.8
Credited / (charged) to the income statement	(5.1)	(0.2)	(5.3)
Credited / (charged) to equity	-	1.1	1.1
	<hr/>	<hr/>	<hr/>
At 31 December 2020	1.4	0.2	1.6
	<hr/>	<hr/>	<hr/>

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

22. Provisions

	Reinstatement provision £m	Other provision £m	Total provisions £m
At 1 January 2020	13.1	0.2	13.3
Released	-	(0.2)	(0.2)
Adjustment for changes in assumptions	0.6	-	0.6
Unwinding of discount	0.1	-	0.1
At 31 December 2020	13.8	-	13.8

Decommissioning provisions are made in respect of the Company's CCGT plants. The provision is based on the assumption that the decommissioning will take place at the end of the expected useful life of each site (which varies between 2022-2035) and has been estimated using existing technology at current prices based on independent third-party advice, updated on a triennial basis. The most recent updates took place during 2020. The average discount rate used across the Company's decommissioning provisions is 0.6% (2019: 0.9%), which is a pre-tax risk-free rate that reflects the duration of the liabilities.

23. Share capital

	2020 £m	2019 £m
Shares classified as equity		
1 (2019: 460,700,000) Ordinary shares of £1 each	-	460.7

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.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

24. Discontinued Operations

Following the sale of the trade and assets as described in note 29, the income and expenses of the Hydro assets have been classified as discontinued operations. The prior period comparatives have been re-presented:

	2020 £m	2019 £m
Revenue	88.5	90.7
Cost of Sales	(7.1)	(2.2)
Gross Profit	81.4	88.5
Operating and administrative expenses	(17.3)	(17.8)
EBITDA	64.1	70.7
Depreciation	(2.5)	(2.7)
Amortisation	(0.1)	(0.1)
Other gains and losses	-	(1.0)
Operating Profit	61.5	66.9
Interest receivable and similar income	0.1	0.1
Profit before tax on discontinued operations	61.6	67.0
Tax on Profit	(11.7)	(12.0)
Profit after tax on discontinued operations	49.9	55.0

25. Share-based payments

Equity-settled share option schemes

The Company participated in a share option scheme for employees, operated by another Drax Company company: the Savings-Related Share Option Plan (SAYE) for all qualifying employees. The table below represents the credit to equity during the year:

	2020 £m	2019 £m
SAYE Plan	0.9	0.2

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 (2019:298 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 period.

The weighted average remaining contractual life was 43 months.

Additional information in relation to the Drax Company's share-based incentive plans can be located in page 200 of the 2020 Drax Group Plc Annual report and accounts.

**Notes to the financial statements
for the year ended 31 December 2020**

26. Contingent liabilities

Guarantees

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

- At 31 December 2020 the outstanding borrowings of the Drax Group secured on the assets of the Company amounted to £1,085.3 million (2019: £1,267.5 million).
- At 31 December 2020 letters of credit issued under the revolving credit facility, held by Drax Corporate Limited (a Drax Group Company) amounted to £67.9 million (2019: £77.0 million).

Guarantees and security were also provided in respect of the above borrowings by certain other members of the Drax Group.

The Company also provided security and guarantees in respect of Drax Power Limited's (a Drax Group company) obligations under certain secured trading lines for secured commodity trading and certain FX, inflation and interest rate hedging arrangements that form part of the Drax Group's senior financing arrangements and which would crystallise in the event of Drax Power Limited defaulting on the terms of these arrangements. During the year the Company opted to close the secured commodity trading line and as such no further trades are able to utilise the line. The final trades utilising the line matured in March 2021. As at 31 December 2020, this value was £0.8 million (2019: £32.7 million).

No liability is provided in respect of any of the above matters as the likelihood of an event of default is considered to be remote in each case.

After the Balance Sheet date, at the point of sale to VPI, the Company was released of its obligations and charges under these arrangements with the Drax Group.

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 £1.1 million (2019: £2.2 million). Contributions amounting to £nil (2019: £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

Since 2019, the Company has operated a defined benefit pension scheme. Under the Scheme, employees are entitled to retirement benefits based on final salary on attainment of retirement age (or earlier withdrawal or death). No other post-retirement benefits are provided. The Scheme is open to future accrual of benefits.

The Company operates the Scheme under the UK regulatory framework. Benefits are paid to members from trustee-administered funds, who are responsible for ensuring that the Scheme is sufficiently funded to meet current and future benefit payments. Scheme assets are held in trusts separate to the Company. If investment experience is worse than expected, the Company's obligations are increased.

The nature of the relationship between the Company and the trustee is also governed by UK regulations. The trustee must agree a funding plan with the sponsoring company such that any funding shortfall is expected to be met by additional contributions and investment outperformance. In order to assess the level on contributions required, triennial valuations are carried out with the Scheme's obligations measured using prudent assumptions (relative to those used to measure accounting liabilities).

**Notes to the financial statements
for the year ended 31 December 2020**

27. Retirement Benefit Obligations (continued)

The trustee's other duties include managing the investment of Scheme assets, administration of Scheme benefits and exercising of discretionary powers. The Company works closely with the trustees to manage the Scheme.

The weighted average duration of the Scheme is around 25 years.

The Drax 2019 Scheme exposes the Company to actuarial and other risks, the most significant of which are considered to be:

Investment risk

The scheme liabilities are calculated using a discount rate set with reference to corporate bond yields; if assets underperform this yield, this will create a deficit. The scheme holds a significant proportion of growth assets (diversified growth funds, direct lending and absolute return bonds) which, though expected to outperform corporate bonds in the long term, create volatility and risk in the short term. The allocation to growth assets is monitored to ensure it remains appropriate given the scheme's long-term objectives.

Discount rate risk

A decrease in corporate bond yields will increase the value placed upon the scheme's liabilities, although this will be partially offset by an increase in the value of the scheme's bond holdings.

Longevity risk

The majority of the scheme's obligations are to provide benefits for the life of the member, so increases in life expectancy will result in an increase in the liabilities of the scheme.

Inflation risk

The majority of the scheme's obligations to pay benefits are linked to inflation and, as such, higher inflation will lead to higher liabilities. The majority of the assets held by the scheme are either unaffected by or only loosely correlated with inflation, such that an increase in inflation will also increase the deficit. In most cases, caps on inflationary increases are in place to protect against extreme inflation. The scheme has a significant holding in liability-driven investments and a substantial proportion of this risk is hedged.

Other risks include operational risks (such as paying out the wrong benefits), legislative risks (such as the Government increasing the burden on pension schemes through new legislation) and other demographic risks (such as making a higher proportion of members with dependants eligible to receive pensions from the Company). The Trustees ensure certain benefits payable on death before retirement.

Assumptions have been set using the best information currently available to Drax Company.

The principal assumptions have been set with reference to the nature and term of the scheme liabilities and are as follows:

	2020 %	2019 %
Discount rate	1.5	2.2
Rate of increase in pensions in payment and deferred pensions	2.9	2.9
Rate of increase in pensionable salaries	3.5	3.5
Inflation assumption	2.8	2.9

Notes to the financial statements for the year ended 31 December 2020

27. Retirement Benefit Obligations (continued)

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:

	2020 £m	2019 £
Reconciliation of present value of plan liabilities:		
At the beginning of the year	45.6	50.7
Finalisation of transfer values	-	(14.1)
Current service cost	2.8	1.9
Employee contributions	0.1	0.1
Interest cost on plan liabilities	1.0	1.1
Actuarial losses	7.8	5.9
At the end of the year	57.3	45.6

The actuarial losses of £7.8 million reflect losses of £7.7 million (2019: £7.5 million) arising from changes in financial assumptions and £nil million gains arising from changes in demographic assumptions and gains of £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 1.5% (2019: 2.2%) following decreases in corporate bond yields.

	2020 £m	2019 £m
Reconciliation of fair value of plan assets:		
At the beginning of the year	49.5	54.5
Finalisation of transfer values	-	(15.1)
Remeasurement gains	2.1	5.8
Employer contributions	3.2	3.0
Employee contributions	0.1	0.1
Interest income on plan assets	1.1	1.2
At the end of the year	56.0	49.5

	2020 £m	2019 £m
Defined benefit obligation	(57.3)	(45.6)
Fair value of plan assets	56.0	49.5
Net (deficit)/surplus recognised in the balance sheet	(1.3)	3.9

The trust Deed provides for any residual surplus on winding up of the scheme to be returned to the Company.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

27. Retirement Benefit Obligations (continued)

	2020 £m
The amounts recognised in the income statement are as follows:	
Current service cost	2.8
Interest on net defined benefit asset	(0.1)
Costs of managing plan assets	0.3
Total expense recognised in the Income Statement	<u>3.0</u>

	2020 £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	<u>(6.0)</u>

The assumptions for discount rate, inflation rate, rate of increase in pensions paid and expected return on plan assets all have a potentially significant effect on the measurement of the scheme liability. The following table provides an indication of the sensitivity of the liability at 31 December 2020 to changes in these assumptions:

	Change in Assumption	Increase in assumptions	Decrease in assumption
Discount rate	0.50%	Decrease by 11.8%	Increase by 12.8%
Inflation rate	0.50%	Increase by 10.6%	Decrease by 9.4%
Life expectancy	1 year	Increase by 3.7%	Decrease by 3.7%

The sensitivities have been calculated by changing the key assumption only and leaving all others fixed. The RPI inflation sensitivity allows for the impact on salary growth, CPI inflation and pension increases in of changing the RPI inflation assumption.

The Company is exposed to investment and other experience risks and may need to make additional contributions where it is estimated that the benefits will not be met from regular contributions and expected investment income.

On 15 December 2020, the Drax Group announced that it had reached agreement for the sale of the Company's CCGT assets and business to VPI Generation Limited. 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. Please see note 32 for details of outstanding liabilities following completion of the sale. The Scheme remained open for remaining employees at the Balance Sheet date however ceased upon the change in company ownership.

28. Other Commitments

	2020 £m	2019 £m
Capital commitments contracted but not provided for	5.0	6.3
	<u>5.0</u>	<u>6.3</u>

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

29. Sale of trade and assets

On 16 December 2020, the Company entered into an agreement with Drax Power Limited (a Drax Company) 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 million to be settled by adjusting intra-Company balances. The gain arising on sale of £0.5 million was calculated as follows:

		£m
Consideration received		80.0
Net Book Value of Net Assets transferred		(79.5)
		<hr/>
Gain on sale		0.5
		<hr/>
Net Book Value of Net Assets transferred		£m
Property, Plant and Equipment	14	73.3
Inventories	17	0.2
ROC assets	19	5.2
Trade and other receivables and contract-related	18	4.4
assets Trade payables, other payables and contract	20	(4.6)
liabilities Drax Company intercompany receivable	18	1.0
balances		<hr/>
		79.5
		<hr/>

30. Related party transactions

The Company has taken advantage of FRS 101.8(k) which exempts qualifying entities from disclosing related party transactions entered into between two or more members of a Company, provided that any subsidiary which is party to the transaction is wholly owned by a member of that Company and that there were no other related party transactions to disclose.

31. Ultimate parent undertaking and controlling party

The immediate parent company at the balance sheet date was Drax Smart Generation Holdco Limited. The ultimate parent and controlling company was Drax Company plc, a publicly listed company incorporated in England and Wales. Drax Company plc is the smallest and largest Company for which consolidated financial statements are prepared. Copies of the consolidated financial statements for Drax Company plc are available from: Company Secretary, Drax Power Station, Selby, North Yorkshire YO8 8PH, or at www.drax.com.

At the date of signing the Annual Report and Financial Statements the Company's immediate and ultimate parent undertaking were VPI Generation Limited and VPI Holding Limited respectively.

VPI Power Limited

Notes to the financial statements for the year ended 31 December 2020

32. Post Balance Sheet events

On 15 December 2020, the Drax Group announced that it had reached agreement for the sale of the Company's CCGT assets and business to VPI Generation Limited. Following the announcement, the Hydro assets and employees working at the Hydro and pumped storage plants were transferred to another Drax Group company. 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. Due to the timing of the legal process, the obligation of £1.1 million was not transferred until January 2021.

Subsequent to the year end, in January 2021, the Company declared dividends totaling £194.8 million which settled the outstanding intercompany balances.

The sale of the Company subsequently completed on 31 January 2021 and the Company changed its name to VPI Power Limited. Following the completion, the Company ceased to be a part of the Drax Group and the Company's immediate parent undertaking became VPI Generation Limited. In January 2021 the Company also sold its entire shareholding in SMW Limited to another Drax Company entity for consideration of £2 being its carrying value.