

NEGOTIATIONS WITH LANDOWNER, FUNDING

**THE VPI IMMINGHAM LLP (LAND AT ROSPER ROAD) COMPULSORY PURCHASE
ORDER 2024**

DOCUMENT CD 8.4

APPENDICES TO STATEMENT OF EVIDENCE

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VPI Holding Limited**

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APPENDIX 1

Humber Zero Pre-FEED

Configuration Screening Workshop

16th March 2020

Agenda

No.	Description	Timing (approx.)
00	Safety Moment	11.00
01	Recap	11.05
02	Screening	11.30
	Lunch	12.30
03	Proposed Configuration	13.00
04	Next Steps / Review of Actions	14.00

Covid-19 Outbreak a Pandemic 11th March 2020 – WHO Advice

- Hand Hygiene
 - Frequent handwashing with soap and water, or using alcohol-based hand wash, kills viruses that may be on your hands
 - Wash for 20 seconds (sing a song) when going out, coming in and before eating
- Maintain Social Distancing
 - Keep at least 1m from anyone who is coughing or sneezing
- Avoid touching you face
 - Touching eyes, nose or mouth can transfer virus from hands providing a way to get into your body
- Practice Respiratory Hygiene
 - Cough or sneeze into your bent elbow (dab), or a tissue and throw the tissue away right away
- If you have a fever, cough and difficulty breathing, seek medical advice early – call in advance
 - Stay at home if you feel unwell
 - Contact local healthcare system to determine correct course of action at the time
- Keep Informed

Humber Zero Pre-FEED *Configuration Screening Workshop*

Recap

01 Recap – Overall Objective



Humber Zero Strategy / Objectives

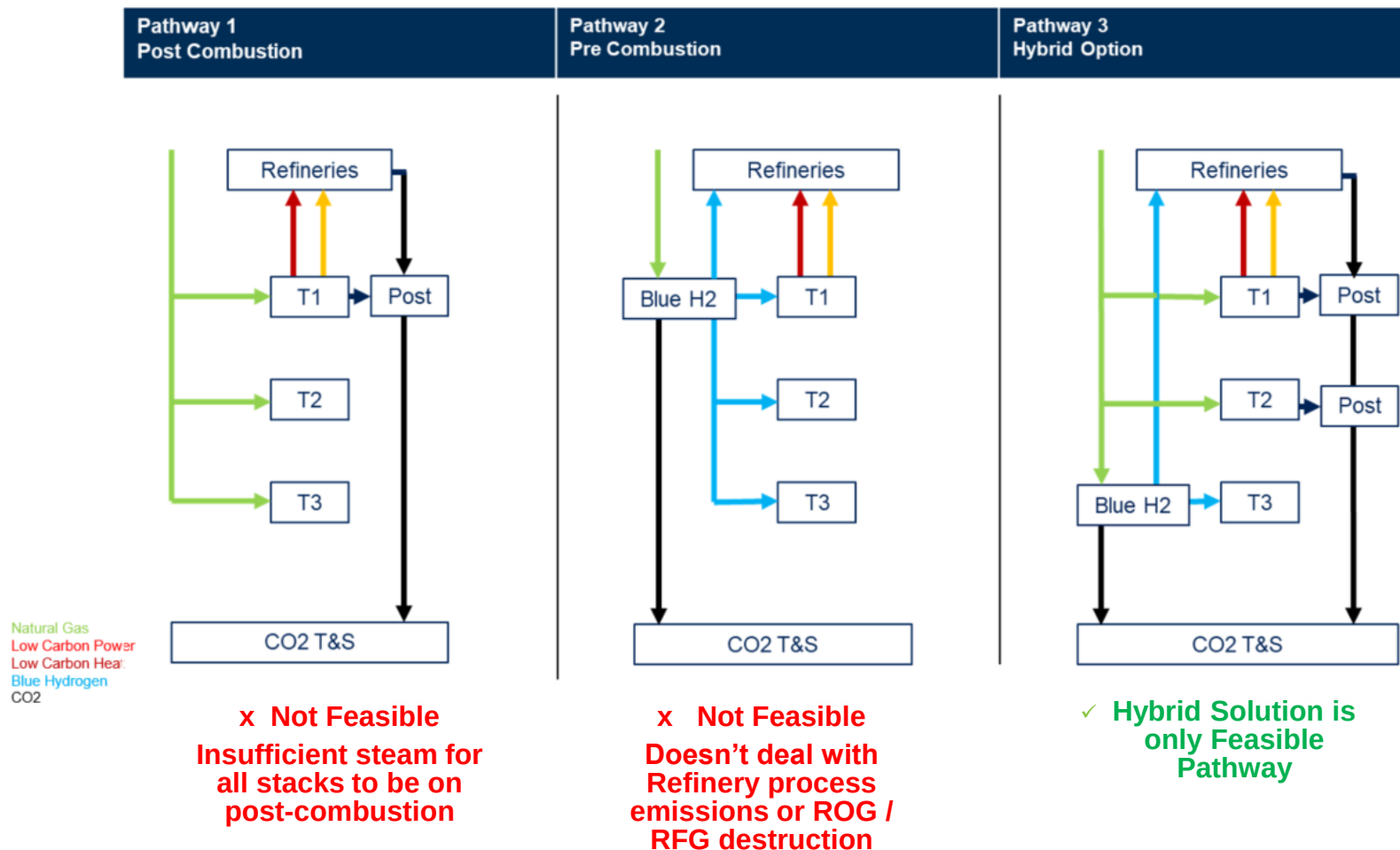
- Develop Immingham area to become a CO₂ capture and H₂ hub
 - Low-cost solution for decarbonised energy to industries (and Nat. Grid)
 - Platform for commercial-scale demonstration of decarbonisation technologies
- Humber Zero have outlined their plans to decarbonise the energy (steam and power) produced at the VPI Immingham site
 - Primarily used to supply the demands of Phillips 66 HR and Total LOR
- Total Humber Zero cluster emissions are around 6.7 MTPA
 - VPI Immingham annual emissions of 3.1 MTPA
 - Humber Refinery 2.1 MTPA
 - Lindsey Oil Refinery 1.5 MTPA
- Humber Zero need to refine the reference case, and develop a roadmap for project implementation
 - To support June 2020 submission for UKRI funding under Phase 2 of the Industrial Decarbonisation Challenge



01 Recap – Where did we start?

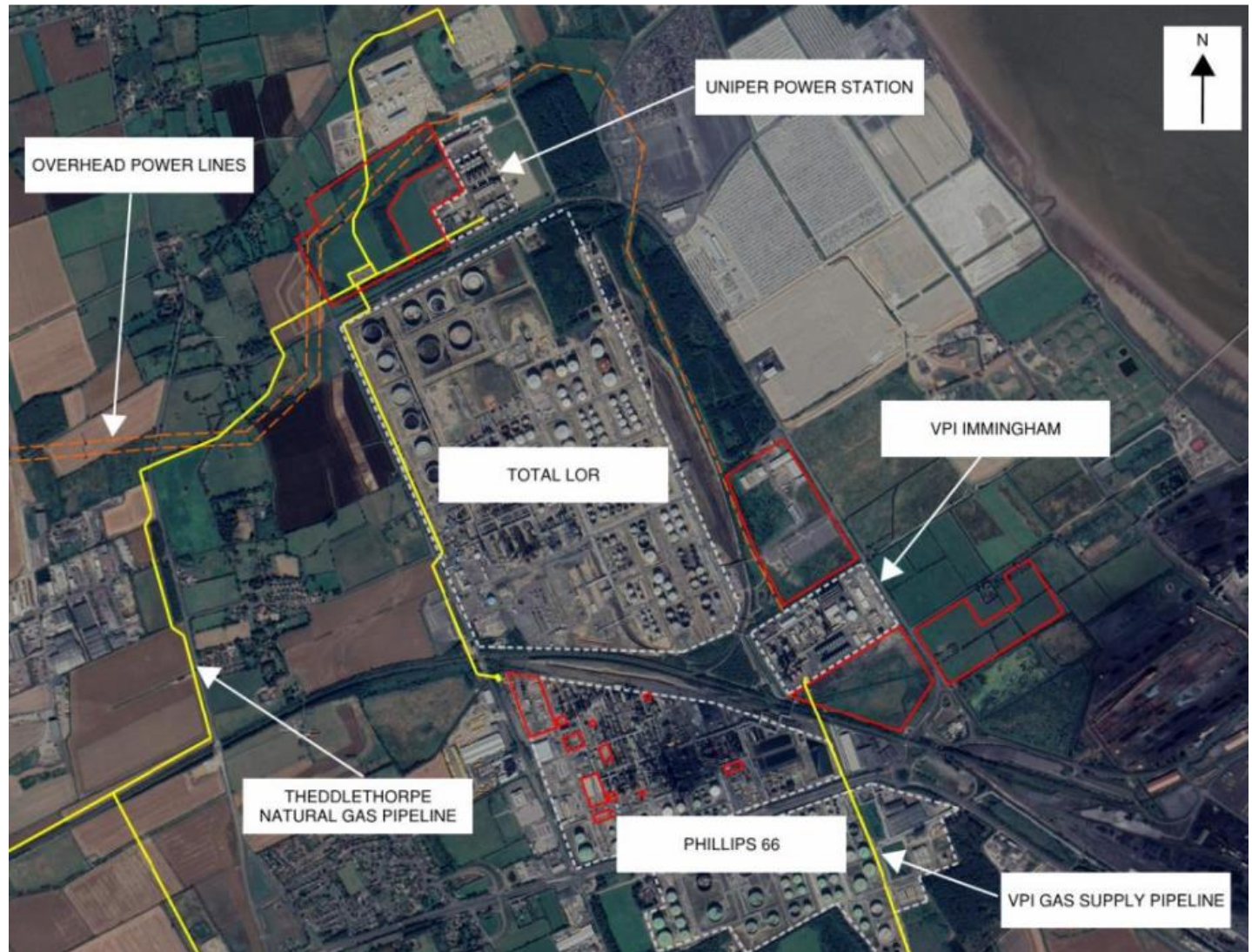
Technical Pathways

The broad scope of the Humber Zero Pre-FEED is represented in the following technical pathways:



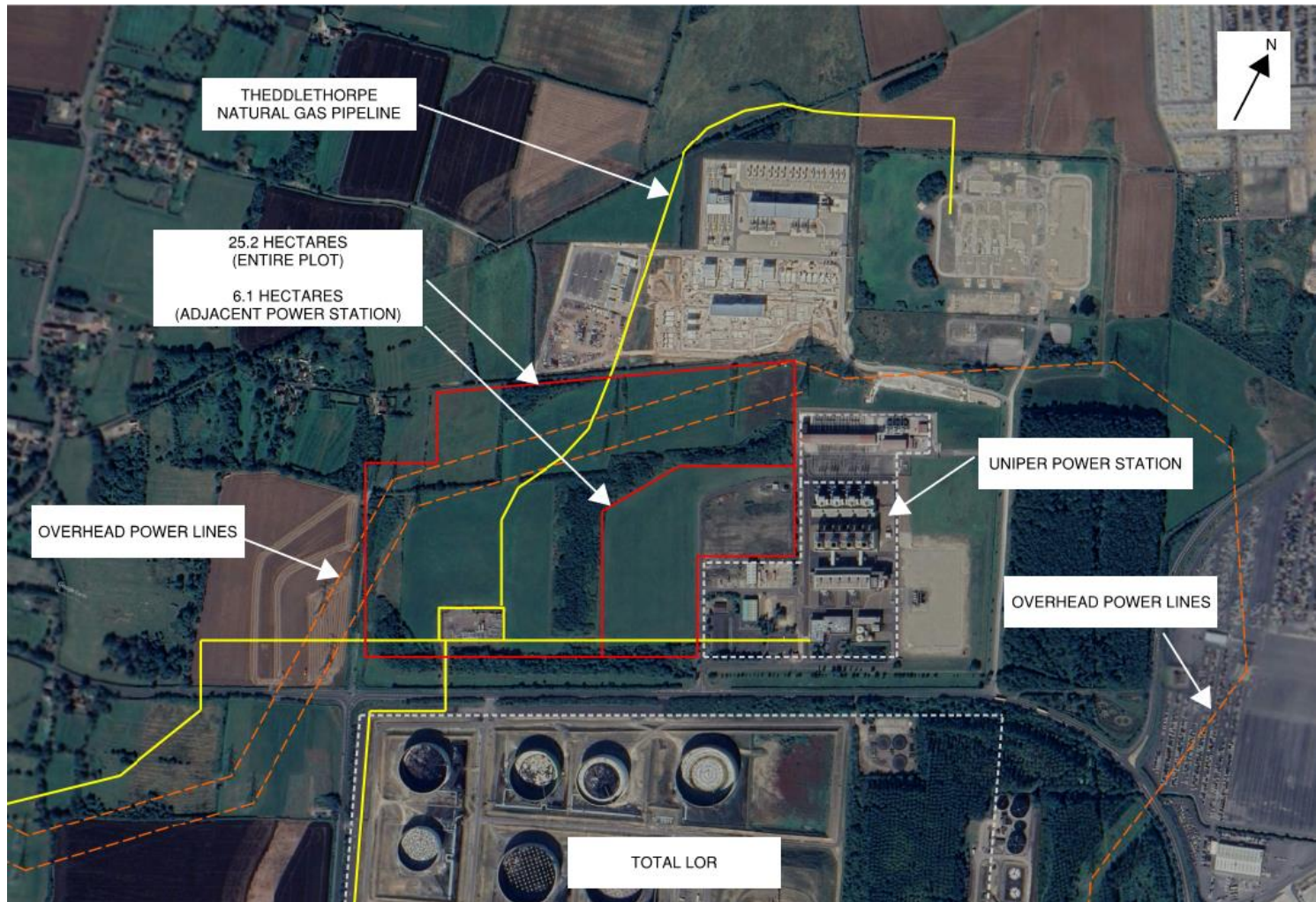
01 Recap – Basis

Plot Options 4 Main Areas



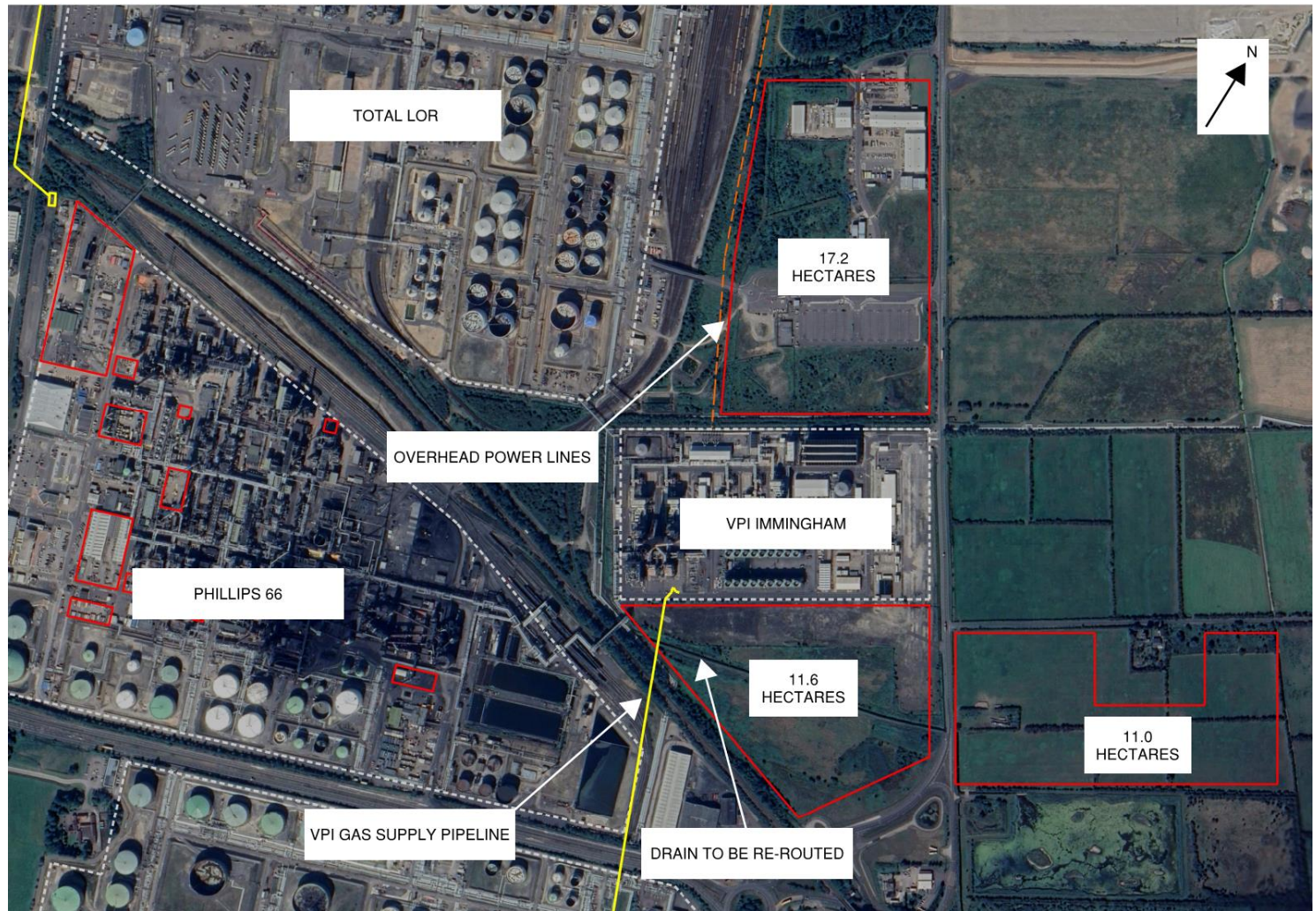
01 Recap – Basis

Plot Options Uniper



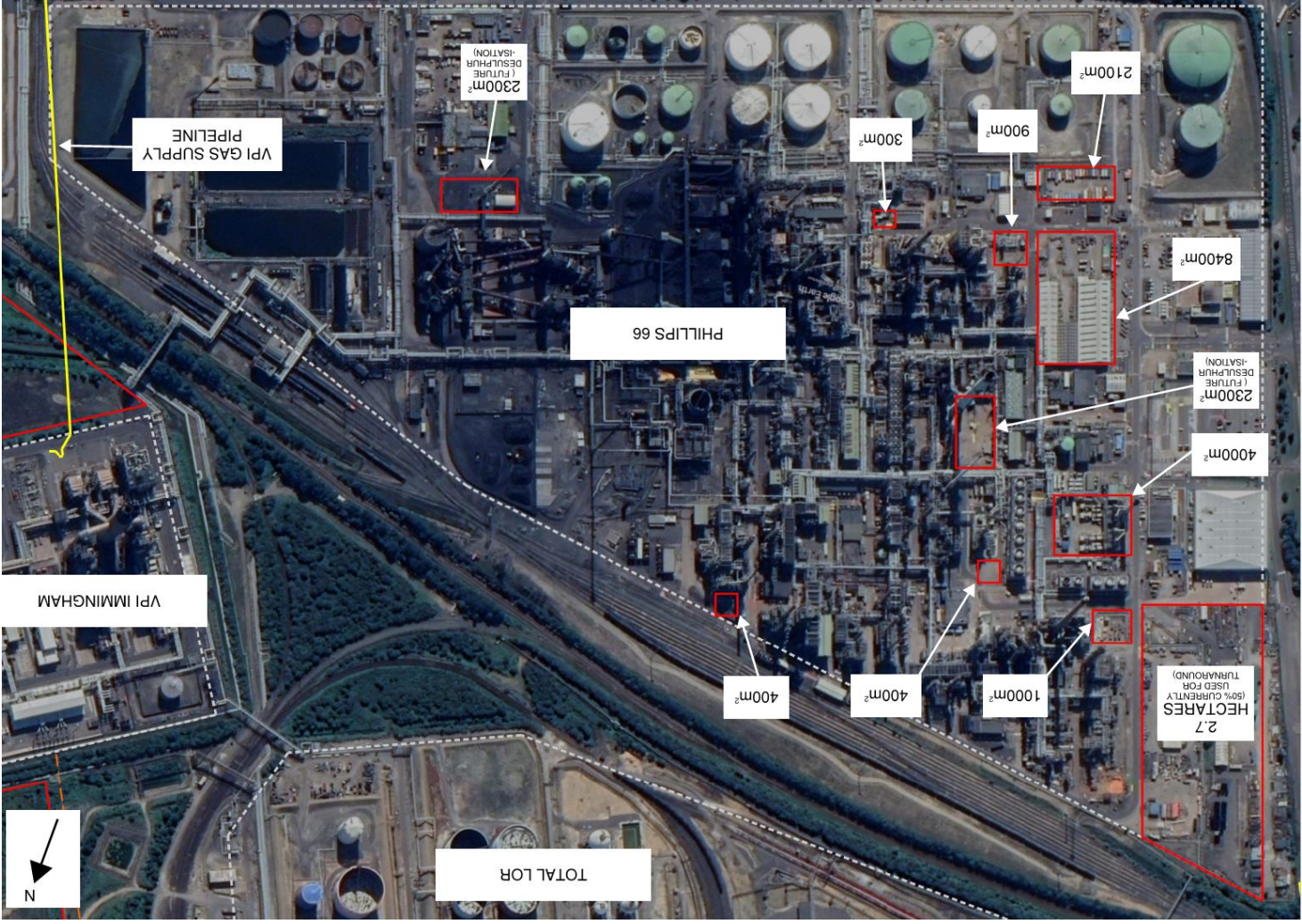
01 Recap – Basis

Plot Options Land Around VPII Site



01 Recap – Basis

Plot Options Within Phillips 66



wood.

- 300-500 tph steam available



Decarbonisation Technology Options

Post-combustion carbon capture (MHI's KS-1 amine solvent technology)

- VPI-I GT1, GT2, GT3, Auxiliary boiler 1 & Auxiliary boiler 2
- Fired heaters and process emissions stacks at Humber Refinery, including waste heat recovery LP steam generation
- Fired heaters and process emissions stacks at Lindsey Oil Refinery

Low carbon hydrogen production

- Air blown autothermal reformer (ATR) with carbon capture, generating $H_2:N_2$ fuel stream (JM technology)
- Advanced Steam Methane Reformer (SMR) with Gas Heated Reformer (GHR) with carbon capture generating pure H_2 (Wood technology)
- Offshore wind powered electrolyzers producing Green Hydrogen

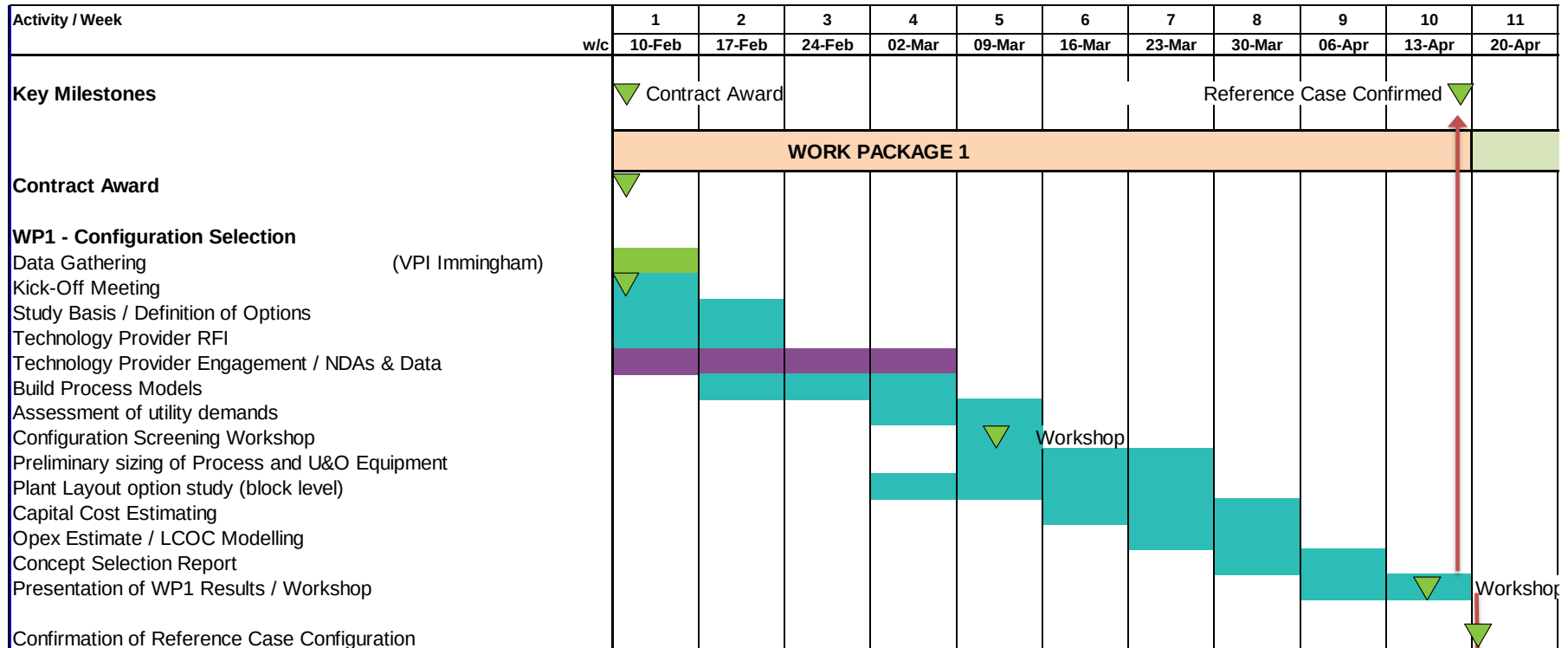
Additional Technologies

- Nitrogen generation for GT fuel dilution by ASU (if required)
- Purchase over the fence from industrial gas supplier as an alternative option
- Hydrogen and H_2/N_2 fuel intermediate / buffer storage options
- Purification of H_2 from $H_2:N_2$ fuel stream by PSA (if required)
- Modification of CCGT to fire 18% H_2 / NG blend (GE gas turbine)
- Modification of CCGT to fire $H_2:N_2$ blend (GE gas turbine)
- Modifications at Humber Refinery to blend H_2 up to 43% in RFG
- Modifications of fired heaters at Humber Refinery to fire max H_2 (if required)
- CO_2 compression and dehydration to assumed tie-in to National Grid CO_2 Transportation system
- CO_2 liquefaction, liquefied storage and ship loading facilities as an alternative option

01 Recap - Plan

WP1 Schedule

- Single Configuration Selection by Easter



WP1: Configuration Selection – Kick-off, Optioneering studies and Concept Selection Report

01 Recap – Where are we Now?



WP1 – Configuration Selection

(Feb-Mar)

Assessment of technology options and configuration options

- Kick-Off Meeting
- Interfacing with GE Power (GTs), Wood (Blue H₂), MHI (CO₂ capture)
 - Performance data / equipment sizing / technical queries
 - NDAs may need to be agreed to protect the confidentiality of data
- Interfacing with VP11 & P66 HR
 - Site / equipment configuration data
- Discussions with ICL / Sheffield
 - to make sure that the configurations being considered are aligned
 - **Build consensus around a single concept**
 - Wood will consider the engineering challenges, take into account information from GE / HR / MHI
 - **Provide workable solutions**
- Initial assessment of technology options/configurations
 - Configuration Screening Workshop after 4 weeks
 - **Screen out less attractive options**



01 Recap – Today's Objective

Configuration Screening Workshop - Objectives

- Find a central option around which some capacity / technology scenarios can be explored in more detail over the next month
 - Screen out less attractive options
- Come out with clearly defined technology options/configurations for techno-economic assessment
 - no more than 4

01 Recap – What's Next?

WP1 – Configuration Selection

(Feb-Mar)

Assessment of technology options and configuration options

- Assessment of up to 4 promising technology options/configurations
 - Block diagrams
 - Overall mass balance and utility demands
 - CO₂ emissions reduction
 - Block plot plans
 - Comparative cost estimates (+/-40%)
 - Opex estimates and Levelised Cost of CO₂ Capture
- Plot option assessment, considering benefits/challenges of available plots
- Refinery CO₂ capture options assessment for HR
- Concept Selection Report
- Gate Review Workshop with Humber Zero project team
 - **Agree single reference case for Pre-FEED**

Humber Zero Pre-FEED *Configuration Screening Workshop*

02 Screening

Principles for Humber Zero Configuration

- **Make best use of what we have**
 - No new steam / power generating capacity to be installed
- **Make decisions based on a long-term view of deeper decarbonisation**
 - No regrets
- **Need a volume of CO₂ export that supports an export pipeline**
 - min 2 MTPA (c. 25% emissions reduction)
- **Include a range of technologies, with potential to expand**
 - Post-combustion CO₂ capture at scale
 - Hydrogen to industry
 - Blue-hydrogen at industrial scale
 - Green Hydrogen demonstration scale

VPI Immingham

- Considerations:
 - LP Steam availability of circa 300-500 tph
 - Overall amount of post-combustion capture likely to be limited by steam availability
 - **Pathway 1 (All Post Combustion for Humber Zero) is not feasible**
 - CCGT1/2 + AB1/2 stacks well located for PCC on plot to South
 - CCGT3 stack is harder to access
 - Better candidate for refueling - Requires up to 700 MWth H₂
 - Need to fire ROG & RFG displaced from Phillips 66 in Train 1&2 duct-burners and Aux Boilers
- Proposal:
 - 3 Independent trains of PCC for CCGT 1, CCGT2 & Aux Boilers (maintainability)
 - Capacity of Aux Boiler PCC train to be confirmed based on operating load/steam demand
- Interfaces:
 - Flue gas ducting from VPII Main Site
 - More Steam demand for PCC reboilers (LP)
 - More Power demand for PCC / CO₂ compression units
 - New CO₂ export - to Booster Compression

New Hydrogen Generation & Hydrogen Hub

- Considerations:
 - Need to distinguish between Hydrogen purities for each application
 - GT needs low purity blend of H_2 : N_2 – like ATR produces
 - RFG needs medium purity H_2 – like SMR produces
 - Refining processes / Industrial users / H_2 vehicles need very high purity H_2 – like green H_2
 - **Refuelling with Blue Hydrogen is more expensive option than PCC**
 - Reforming Technologies are quite close on cost (e.g. Blue SMR+ASU vs ATR+PSA)
 - Large volumes of export steam also available from ATR, which may allow more PCC elsewhere
 - **Preliminary costs & steam figures show air blown ATR more attractive for Blue H_2**
 - Does reliability requirement drive us to 2 x 50% H_2 production units?
- Proposal:
 - Locate ATR close to VP11 on North Side Plot
 - Minimises interface distances – esp. steam/condensate
- Interfaces:
 - Natural Gas import (via VP11?) – capacity?
 - More Power demand for new units
 - Steam export to VP11
 - New CO_2 export - to Booster Compression

Phillips 66 Humber Refinery

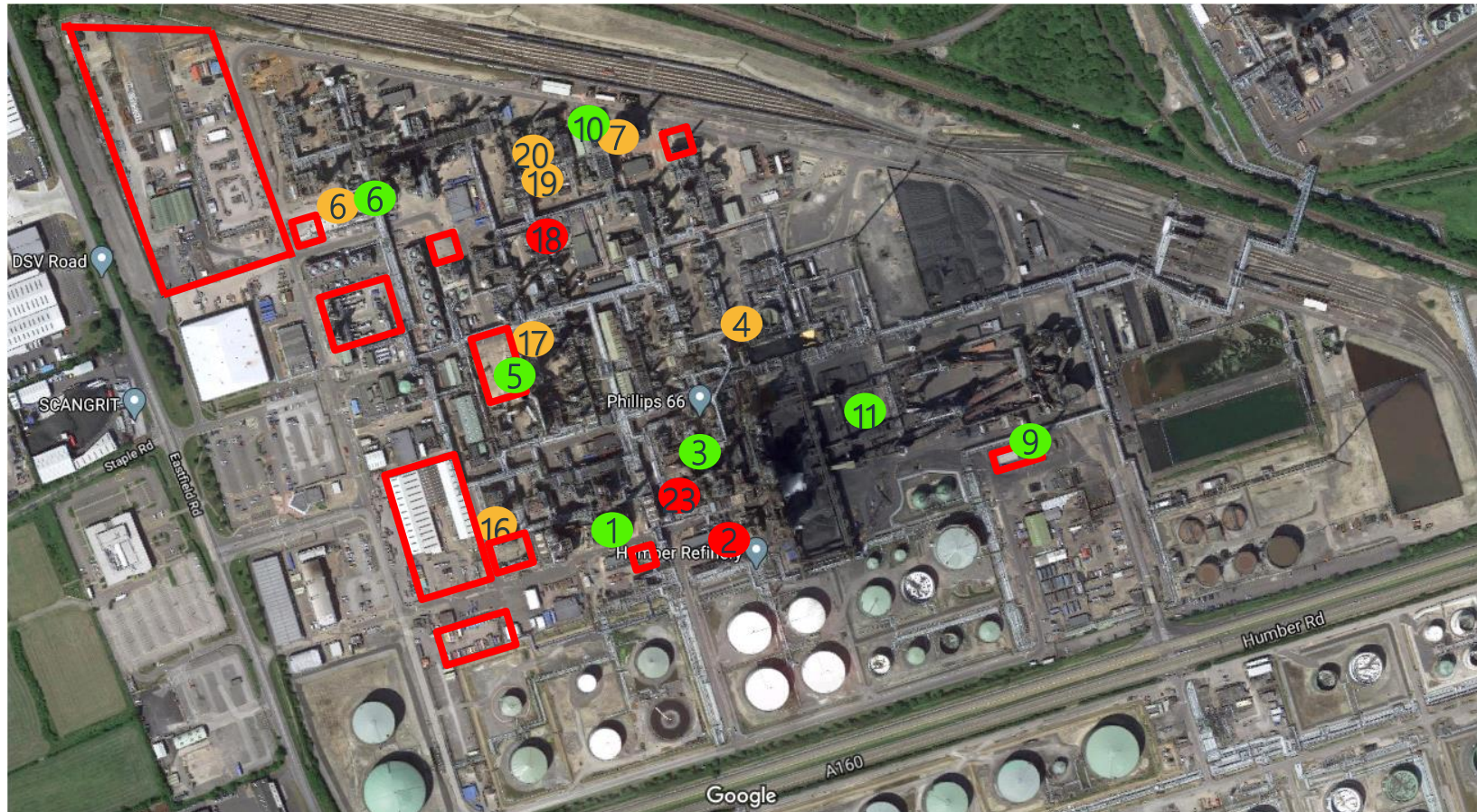
- Considerations:
 - Plot space limitations overall constraint on post-combustion capture ambition at Phillips 66
 - **Only option for Process Emissions is Post-combustion capture – priority for any available plot space**
 - Process stack emissions are generally large (good) but need SCR and/or FGD to reduce NO_x / SO_x
 - FCC Stack is well located for Post-combustion capture
 - Calciner stacks in more challenging location
 - Fired Heater stack emissions could be either PCC or H₂ refuelled
 - Fired heater stacks are dispersed throughout the refinery
 - Some are small or in difficult locations and would be better for H₂ refuelling
 - One candidate 'cluster' is stacks A1/A3/A5/A16 – could work with PCC
 - Waste heat recovery is also an option on some stacks to raise additional LP steam
 - Could consider local Flue Gas Absorbers and centralised CO₂ Regen/Compression systems
 - H₂ blending into current RFG system limited to 43% - gives very limited CO₂ emissions reduction (overall), but might be a 'quick win' whilst other modifications are developed
 - H₂ refuelling of Heaters may have limit < 100% calorific value for heating value reasons – need to be individually assessed – for now we have assumed 90vol% H₂.
 - VPII will need to burn all the displaced RFG (+ ROG) in duct-firing of CCGT1/2 and Aux Boilers

Phillips 66 Humber Refinery

- Proposal:
 - Blend imported Blue/Green Hydrogen into RFG up to 43%
 - Minimal modifications required
 - PCC on FCC Stack A6
 - Best location – also deals with NO_x / SO_x Emissions
 - PCC on Calciner Stacks A9 & A11
 - Needs more plot space
 - Also deals with SO_x / NO_x Emissions
 - PCC on Group 1 Fired Heater Stacks – A1, A3, A5, A16
 - Might depends on how much steam available from VP11
 - Refuel Group 2 Fired Heaters (others) with max Hydrogen
- Interfaces:
 - More Steam demand for PCC reboilers (LP) – from VP11
 - More Power demand for PCC / CO₂ compression units – from VP11
 - New H₂ demand to most fired heaters – from new Blue/Green-H₂ Hub
 - New RFG Export - to VP11
 - New CO₂ export - to Booster Compression

02 Screening

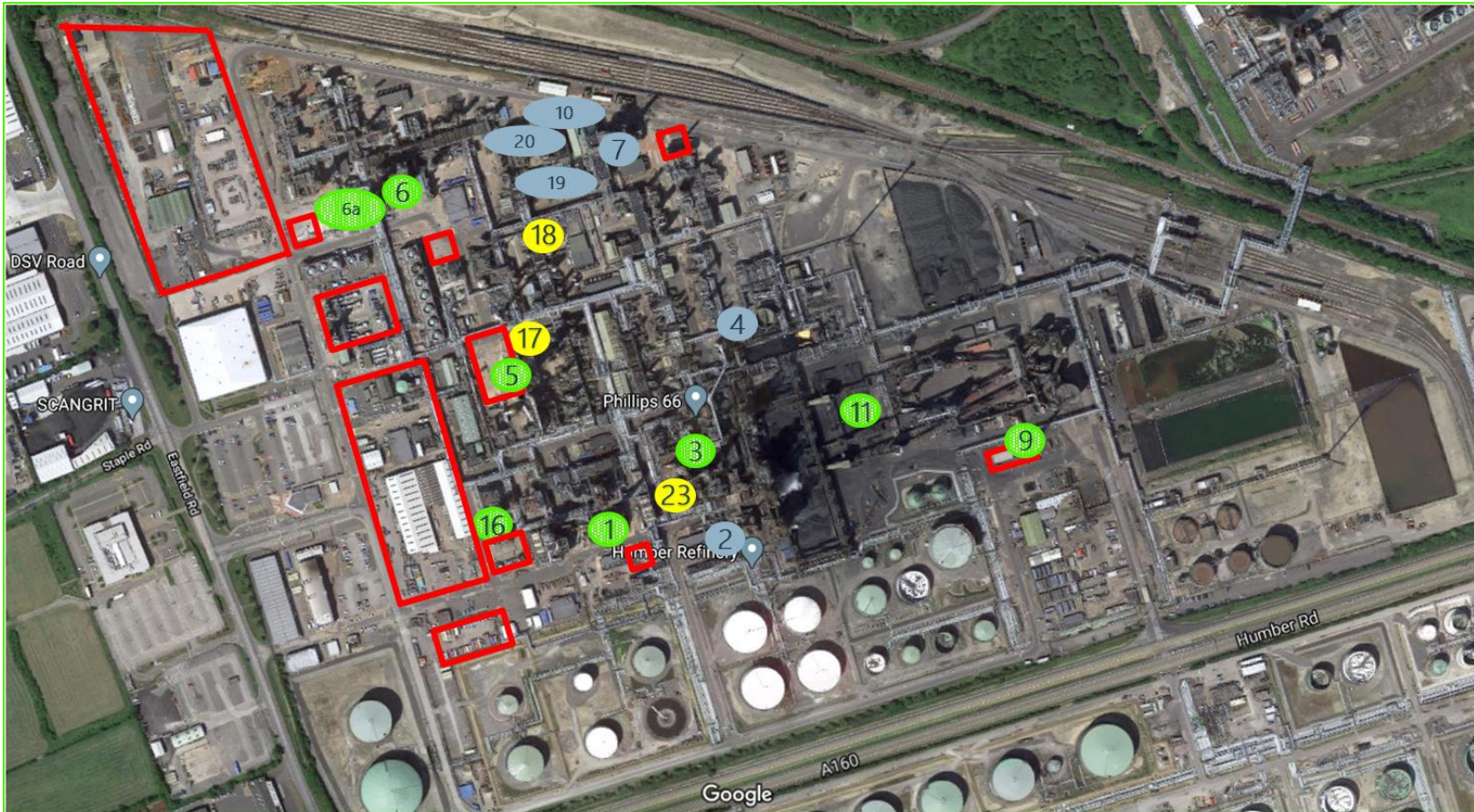
Phillips 66 Humber Refinery – Stack Locations



● High Capacity ● Medium Capacity ● Small Capacity

02 Screening

Phillips 66 Humber Refinery – Stack Locations



● Post Combustion capture for CO2 emissions > 0.2 MTPA

● Replace RFG w/ 90:10 H2: RFG mix for CO2 emissions < 0.2 MTPA

● No treatment for CO2 emissions lower than 0.01 MTPA

Total Lindsey Oil Refinery

- Considerations:
 - Previous Study work considered 2 PCC Units at LOR capturing 1.1 MTPA CO₂
 - Group 1 Stacks included SMR, converting the produced hydrogen to Blue H₂
 - Any spare capacity in Total SMR can be exported to supplement Hydrogen Hub
- Proposal:
 - Assume the 2 PCC units could be installed at Total
- Interfaces:
 - More Steam demand for PCC reboilers (LP) – from VPII
 - More Power demand for PCC / CO₂ compression units – from VPII
 - New H₂ export - to H₂ Hub
 - New CO₂ export - to Booster Compression

Green Hydrogen

- Considerations:
 - Technology is currently at demonstration scale
 - Not enough to fulfil the demand for a GT
 - Overall H₂ production efficiency from power <60%
 - For large scale green H₂:
 - Uncertain how much power would be available to use for Green H₂ generation, and when
 - Difficult to guarantee how much hydrogen can be produced on a continuous basis (at large scale)
 - Capacity of Green Hydrogen facility still to be determined
 - Minimal interfaces - Best location still to be determined
- Proposal:
 - Green H₂ can be used to supplement the Hydrogen network, and Blue-H₂ unit can be operated more flexibly to balance the system.
 - Green H₂ in blocks of 100 MWe (e.g. Gigastack project)
 - Assumed c. 50MWth H₂ at peak - assume 25 MWth H₂ continuous
 - Pressurised bullets for 12hr storage – 600 MWth
- Interfaces:
 - New (Renewable) Power Supply
 - New Green H₂ Export to H₂ Hub

Hydrogen Storage

- Considerations:
 - Capacity of Hydrogen Storage to be determined based on operating load/cycle of CCGT3
 - Volumes expected to be too large for atmospheric storage (gasometers)
 - Volumes likely to be too large for pressurised storage (bullets/spheres)
 - Storage in Salt Caverns is possible
 - Allows the hydrogen production unit(s) to operate more continuously, and allows GT3 to operate more flexibly (for power export)
 - Salt caverns have to have good depth of salt above and below – restricts number of locations in the UK
 - Nearest good storage locations are in Aldborough / Hornsea area – 30 km away (operated by SSE)
 - Salt caverns deep underground so storage at 270barg
 - H₂ has to be compressed into the cavern, and then released back on demand
 - Salt caverns need to be considerably larger than the working volume to allow regular pressure swings.
- Proposal
 - Initial diurnal fluctuations in Green H₂ production to be managed with bullets
 - H₂ Hub load balancing to be managed with salt cavern buffer storage (12 hrs = 12GWth)
- Interfaces
 - H₂ from/to H₂ Hub

Booster Compression

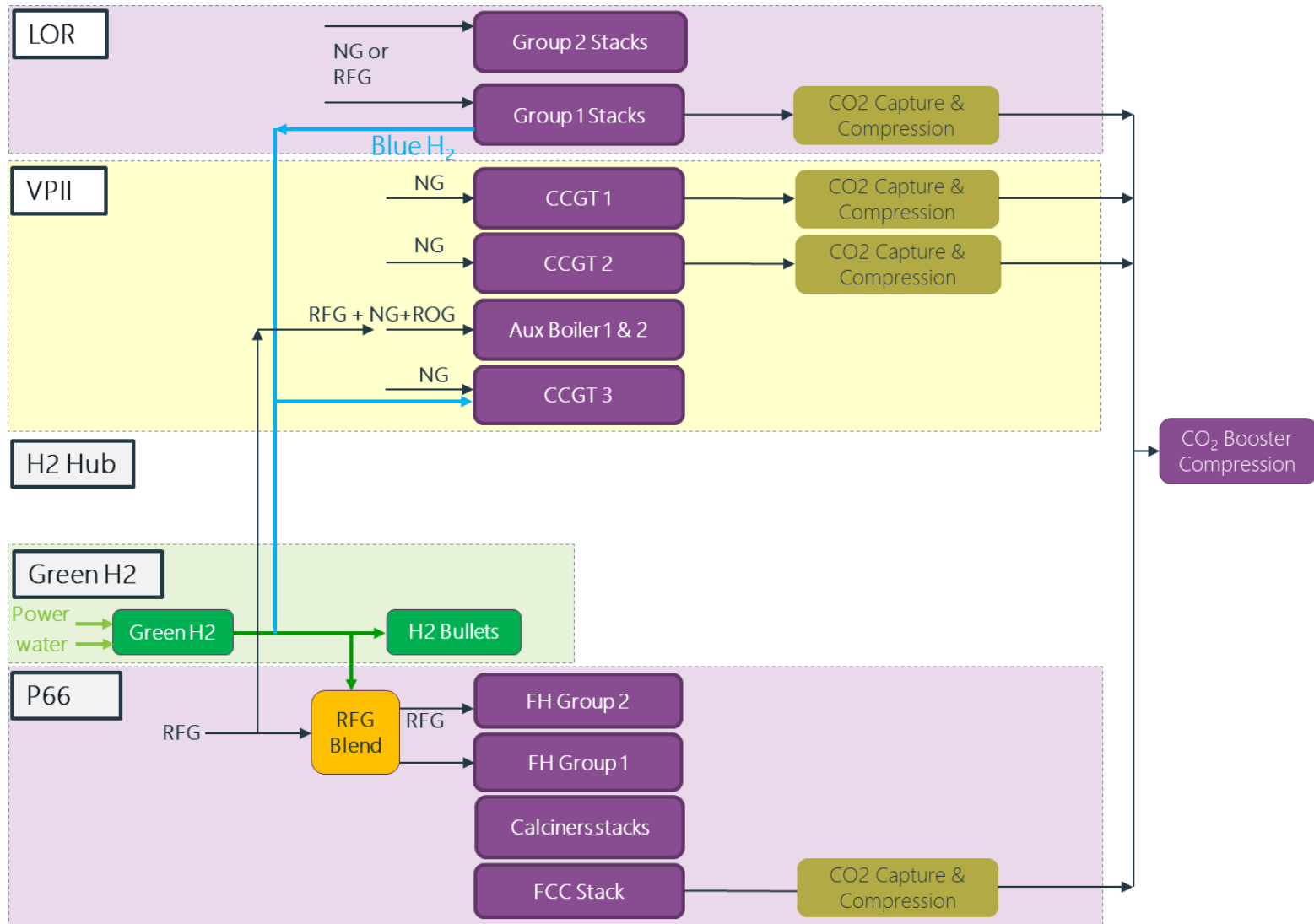
- Considerations:
 - Dense phase CO₂ has lots of risks, and QRA means large areas required
 - Centralised booster compression from 20 – 135 barg
 - Receives pipeline spec CO₂ from individual producers, in gaseous phase
 - Trains of CO₂ compression capacity can be built out as new plants come on line (e.g. 2 MTPA per train)
 - Overall CO₂ captured may get to c. 8-10MTPA – this will set the export pipeline capacity
- Interfaces
 - Gaseous CO₂ received from multiple producers
 - Dense phase CO₂ export to National Grid

Humber Zero Pre-FEED *Configuration Screening Workshop*

03 Proposed Configuration

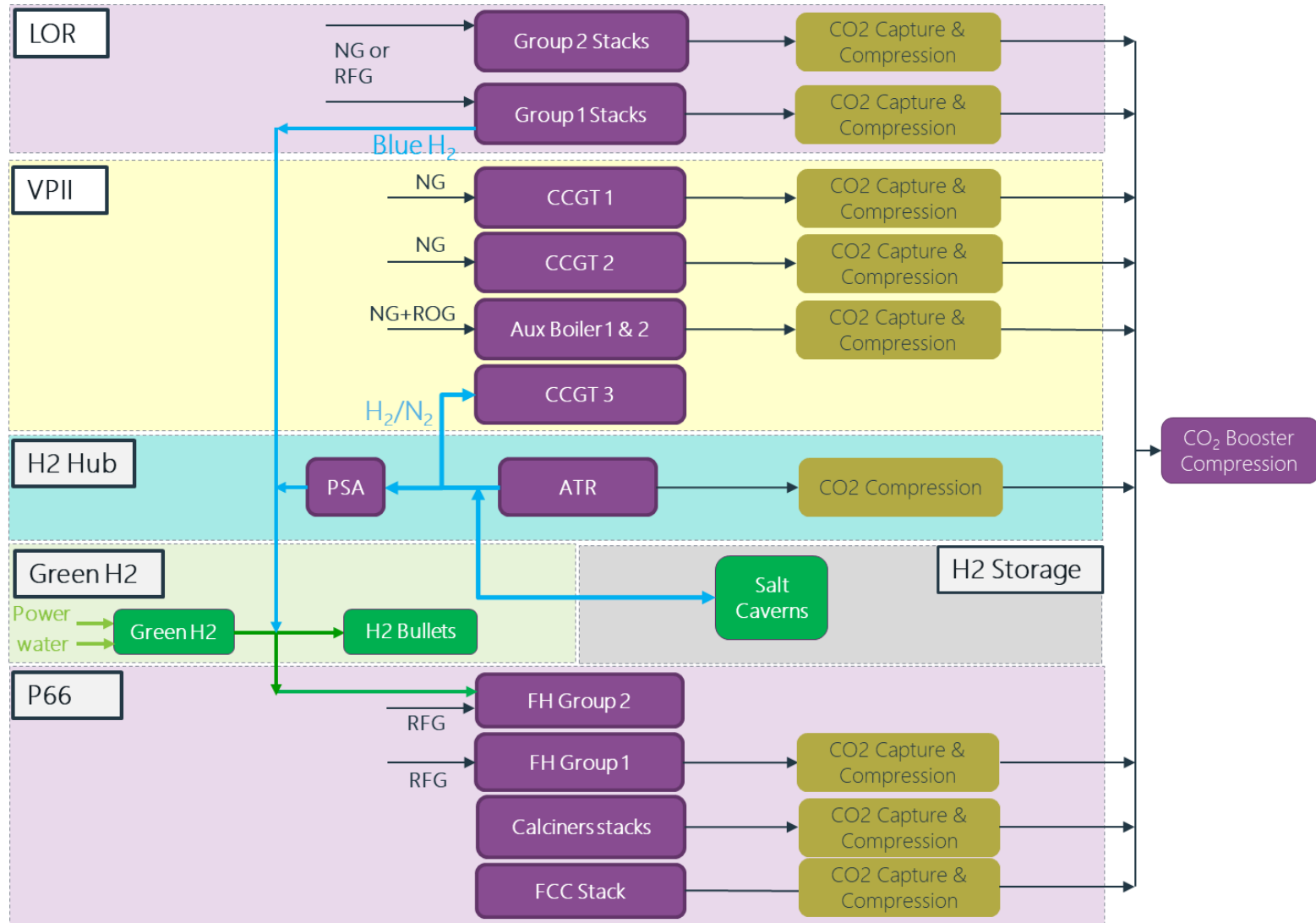
03 Proposed Configuration

Proposed
Dev't
- Stage 1



03 Proposed Configuration

Proposed
Dev't
- Stage 2



03 Proposed Configuration

Proposed Development - Stage 1

Site	Technology	Hydrogen	CO ₂ Captured [MTPA]	OOM Costs [£ M]
Total	PCC on Group 1 stacks including SMR	Export 25 MWth of Blue H ₂ (assumed - TBC)	0.24	47
Philips 66	PCC on FCC stack		0.49	103
	RFG to 43% H ₂	Requires 54 MWth of H ₂	-	Cost TBC
VPII	CCGT3 to 18% H ₂	Requires 44 MWth of H ₂	-	-
	PCC on GT1/GT2		2.61	322
Green H₂	Gigastack	Export 25 MW _{th} of Green H ₂ ⁽¹⁾	-	68
	Green H ₂	Export 48 MWth of Green H ₂ ⁽¹⁾	-	130
	Bullet Storage	12 hrs = 1.2 GWth	-	Cost TBC
	CO ₂ Booster Compression		-	Cost TBC
TOTAL			3.34	670⁺⁺

(1) Green H₂ figures assume installed capacity is double the baseload H₂ demand to produce during the night only.

03 Proposed Configuration

Proposed Development - Stage 2

Site	Technology	Hydrogen	CO ₂ Captured [MTPA]	OOM Costs [£ M]
Total	PCC on Group 2 stacks		0.99	145
Philips 66	PCC on Calciner stack		0.44	92
	PCC on Group 1 FH stacks		0.41	87
	Refuel Group 2 FH to 90% H₂	Requires 188 MWth of H₂	-	Cost TBC
VPII	CCGT3 to Full H₂	Requires 724 MWth of H₂	-	Cost TBC
	PCC on Aux Boilers 1/2		0.70	98
H2 Hub	ATR	Export 724 MWth of H₂	1.60	402
	Salt Cavern Storage	12 hrs = 12 GWth		Cost TBC
Green H2	More Green H₂	Export 90 MW_{th} of Green H₂ ⁽¹⁾	-	242
	CO₂ Booster Compression		-	Cost TBC
TOTAL			4.13	1,066⁺⁺

(1) Green H₂ figures assume installed capacity is double the baseload H₂ demand to produce during the night only.

03 Proposed Configuration



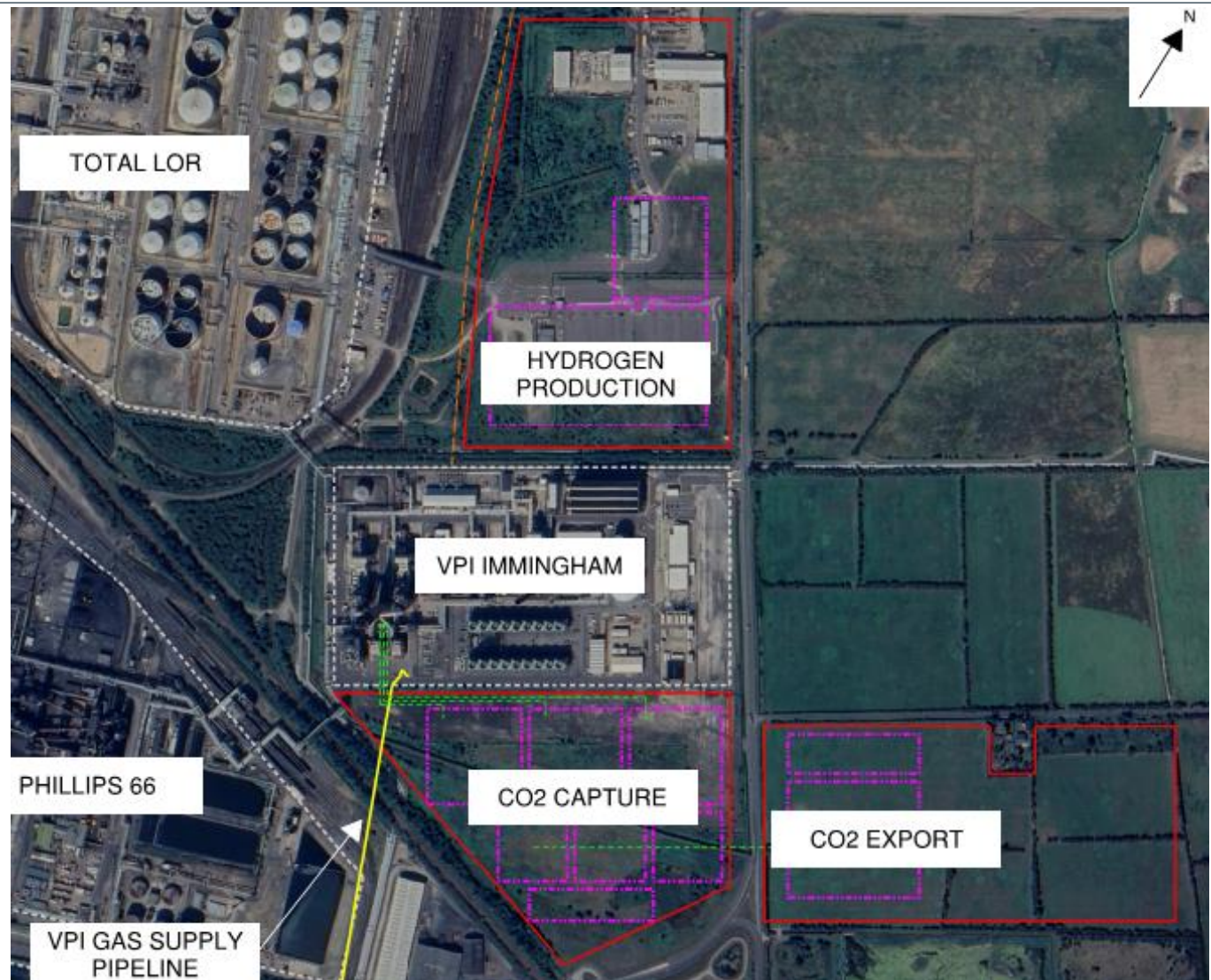
Summary of Configuration Benefits

- Reduces Humber Zero total emissions to circa 1 MTPA CO₂
 - Provides low carbon baseload power
 - Provides low carbon flexible power
 - Provides low carbon heat and power to industry
- Incorporates circa 800 MWth Blue Hydrogen
- Incorporates between 300 & 400 MWth (installed capacity) Green Hydrogen
- Can be delivered in “no regrets” staged development phases, or as a single stage
- Can be expanded to accommodate future developments to Net Zero, e.g.
 - Provides hub to facilitate CO₂ storage from SHB, Altalto, South Ferriby, etc.
 - Increase capacity of either Blue or Green hydrogen to supply ABP & others
 - Incorporate CO₂ captured from DACCS, biogenic/waste sources to reach Net-Zero



03 Proposed Configuration

Concept Layout



03 Proposed Configuration

Concept Layout South/East Plots



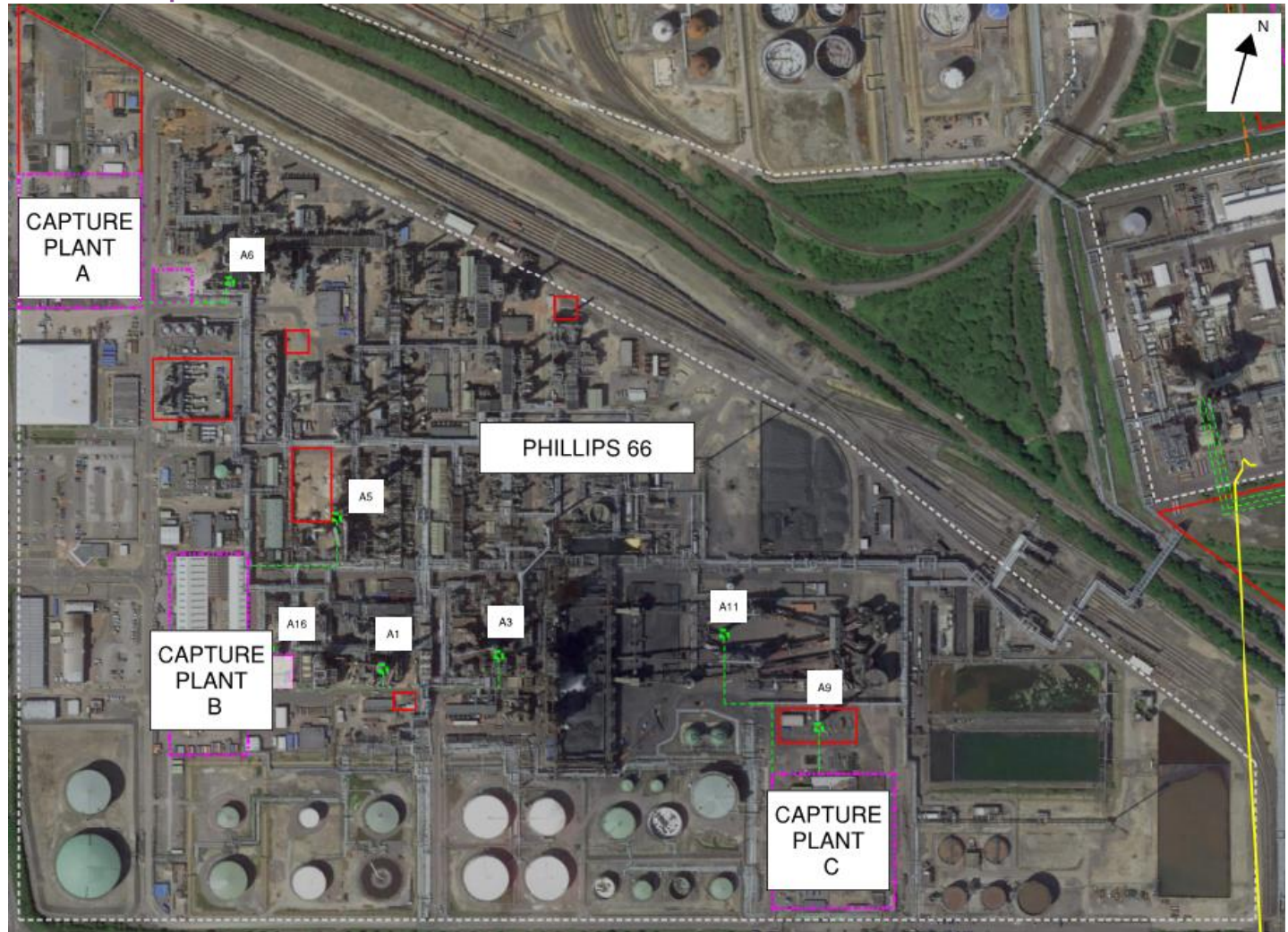
03 Proposed Configuration

Concept Layout North Plot



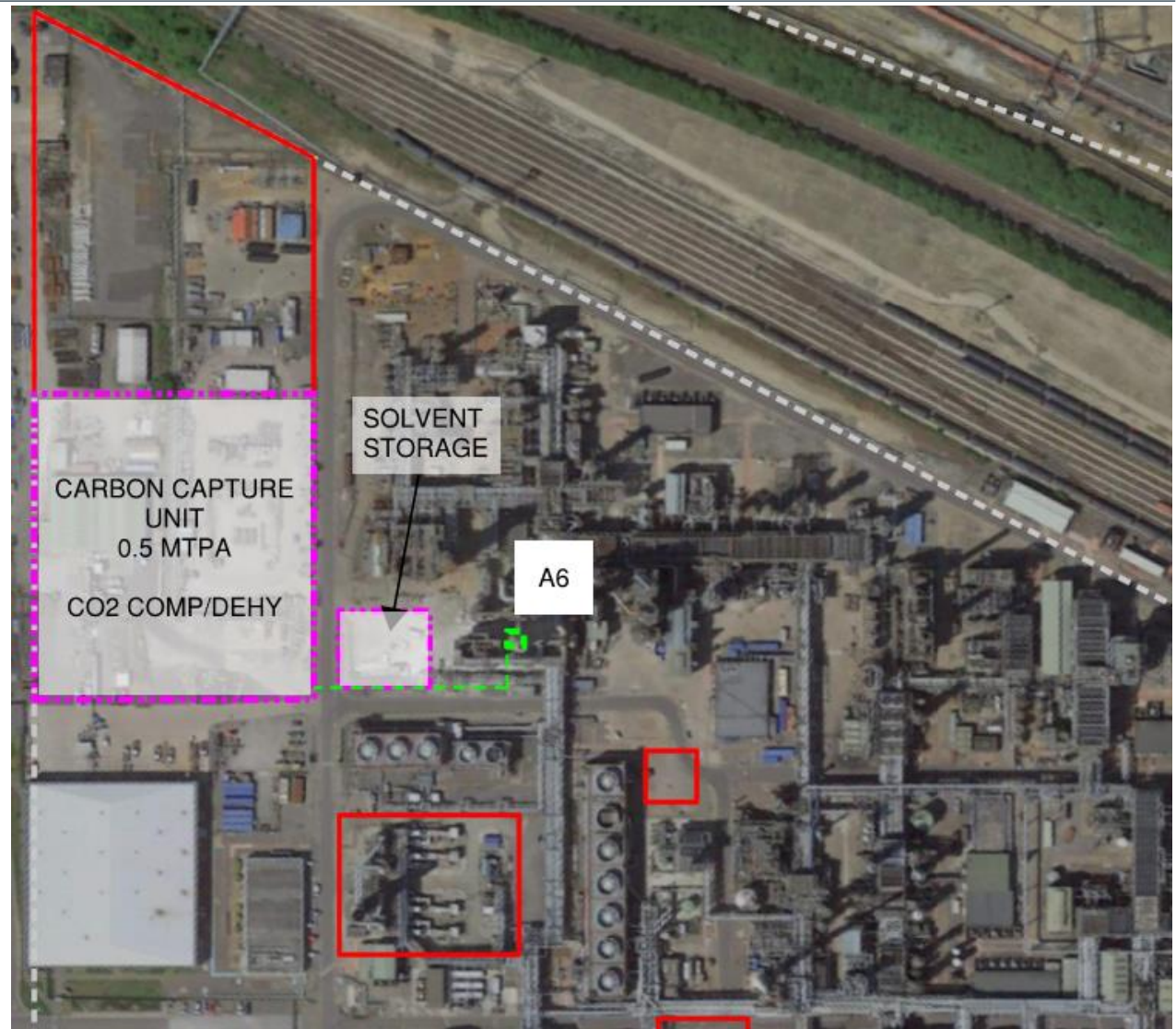
03 Proposed Configuration

Concept Layout - Phillips 66



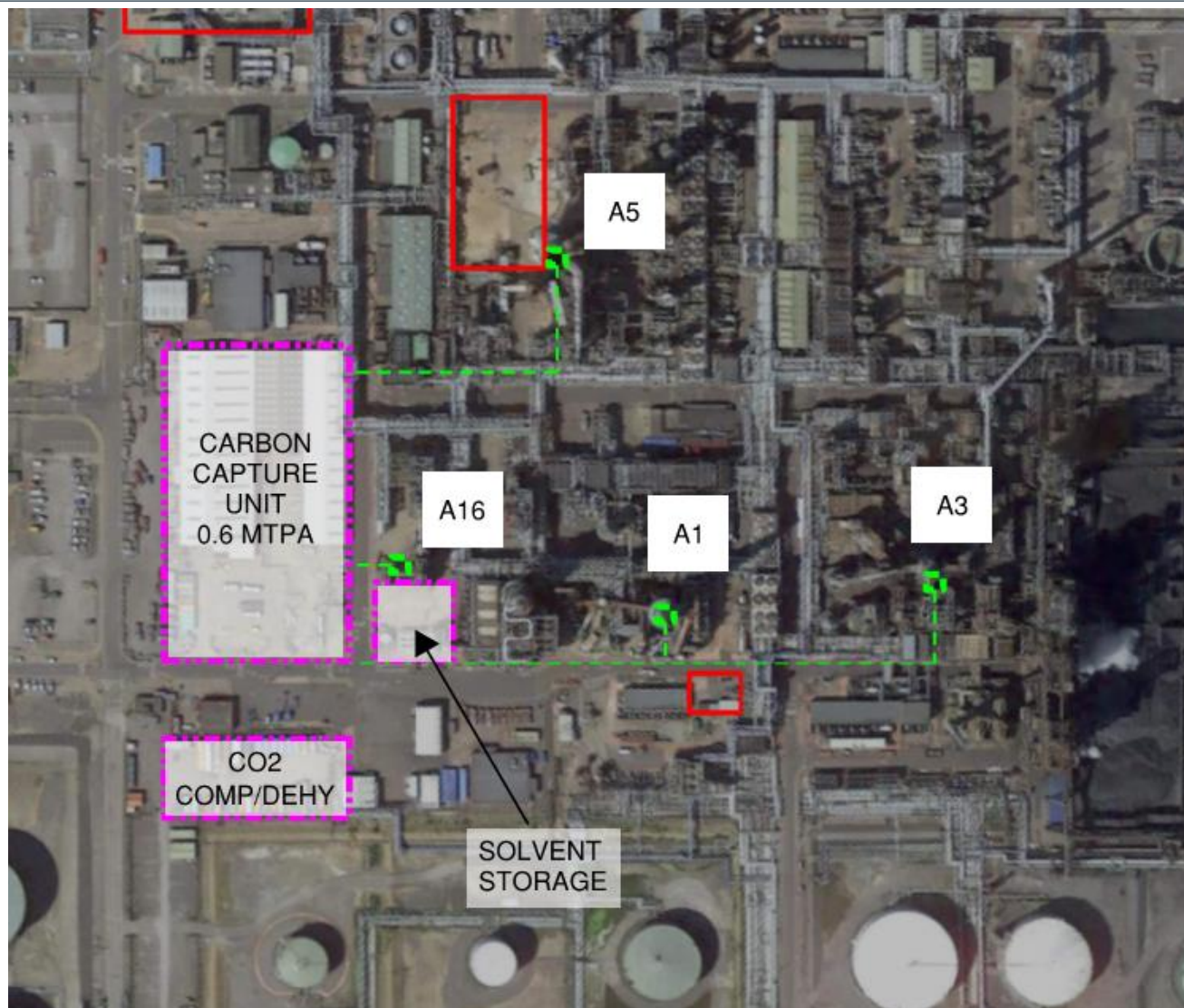
03 Proposed Configuration

Concept Layout
Phillips 66
PCC on FCC Stack



03 Proposed Configuration

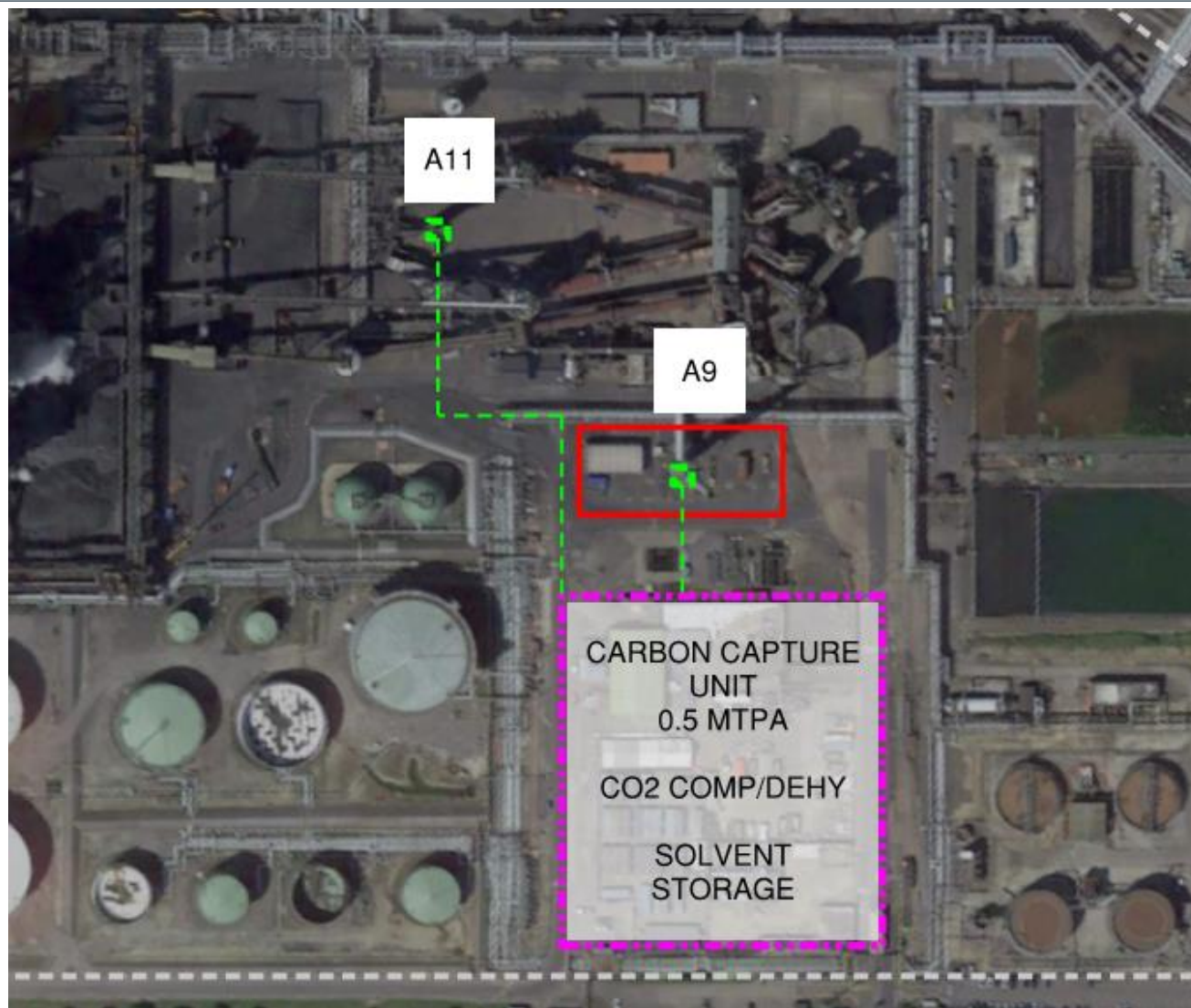
Concept Layout
Phillips 66
PCC on Group 1 Stacks



03 Proposed Configuration

Concept Layout
Phillips 66
PCC on Calciner Stacks

PLOT AREA
SHOWN NOT
CURRENTLY
AVAILABLE



Humber Zero Pre-FEED

Configuration Screening Workshop

04 Next Steps / Review of Actions

WP1 - Configuration Selection

- Configuration Screening Report
 - Documenting work to date and options taken forward
- Humber Refinery Decarbonisation Study Report
 - Standalone report documenting configuration options for Humber Refinery
- Assessment of up to 4 promising technology options/configurations
 - Block diagrams
 - Overall mass balance and utility demands
 - CO₂ emissions reduction
 - Block plot plans
 - Comparative cost estimates (+/-40%)
 - Opex estimates and Levelised Cost of CO₂ Capture
- Plot option assessment, considering benefits/challenges of available plots
- Gate Review Workshop with Humber Zero project team
 - **Agree single reference case for Pre-FEED**
- Concept Selection Report

04 Next Steps

Key Questions

- If we don't have enough steam available for all of the Post-Combustion Options, how do we prioritise which ones to do?
- What design capacity of Aux Boiler capture plant?
- What design capacity of Blue-Hydrogen Production plant?
- What capacity of Green Hydrogen Production facility?
and how much H₂ to expect from it?
- What capacity Hydrogen Storage (linked to GT3 operating regime)?

wood.

woodplc.com

APPENDIX 2

VPI IMMINGHAM LLP

and

PHILLIPS 66 LIMITED

and

UNIPER ENERGY STORAGE GMBH

Memorandum of Understanding (MoU)

v6: 14 February 2020

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Between:

- (1) **VPI IMMINGHAM LLP** a limited liability partnership registered in England and Wales with company number OC300980 whose registered office is at 4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB (**VPI**);
- (2) **PHILLIPS 66 LIMITED** incorporated and registered in England and Wales with company number 00529086 whose registered office is at 7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD (**Phillips**); and
- (3) **UNIPER ENERGY STORAGE GMBH** incorporated and registered in the Federal Republic of Germany with company number HRB 86342 whose registered office is at Franziusstr. 12, 40219 Duesseldorf, Germany (**Uniper**);

(each a **Party** and together the **Parties**).

This memorandum of understanding (**MoU**) sets out the principal terms and conditions on and subject to which the Parties are willing to enter into the development of a Southern Humber sub cluster that will seek co-funding from the UK government through UK Research and Innovation's ("**UKRI**") industrial strategy challenge fund programme (**Project**) subject to the agreement and signing by the Parties of this MoU. This MoU is also subject to the terms of the Memorandum of Understanding dated 31st January 2020 agreed by the Parties together with the other parties developing the Western and Northern sub-clusters which are also seeking co-funding from UKRI (the **All-Parties MoU**).

This MoU is not exhaustive but is intended to be legally binding between the Parties except where specifically stated otherwise.

1 Purpose

- 1.1 This Paragraph 1 is not legally binding.
- 1.2 The Parties share the opinion that to achieve the Humber target of net zero from 1990 levels by 2040 requires a significant level of decarbonisation in and around the Immingham area, and compromising at a minimum the VPI combined heat and power plant, both adjacent refineries, and surrounding area and infrastructure. This could mean extensive deployment of post combustion capture technology with a CO2 transportation and storage network, or making available significant volumes of low-carbon hydrogen at one or more CCS clusters by 2030, for use in industry and in applications that would not initially require major infrastructure changes.
- 1.3 All Parties agree that net-zero can only be achieved by decarbonising existing industry effectively. By eliminating CO2 produced by industry in the Humber, this area plays a key contribution to the UK target and makes existing industry viable in a low carbon economy.
- 1.4 Moreover, the Parties share the opinion that the need for larger shares of energy from renewable sources will also arise, in particular in regard to the transportation sector. Likewise, the need for reducing Co2 emissions from the refining process and industry will also rise. The Humber area is also a key location given the proximity of two refineries and the potential for producing green hydrogen from renewable sources such as future wind projects connected south of the Humber through Electrolysis.
- 1.5 Co-operation agreed by the Parties under this MoU shall serve to assess the technical and economic evaluation of the most effective technical pathway to adopt in relation to the Delivery of the Industrial Strategy Challenge Fund (**ISCF**):

Decarbonisation of Industrial Clusters, Phase 1 Deployment project called "The Humber Industrial Decarbonisation - Deployment Project".

- 1.6 To the extent that a hydrogen pathway is evaluated and proposed in the ISCF application process, an Auto-Thermal Reforming (**ATR**) plant for the generation of hydrogen will be considered in combination with Carbon Capture Usage and Storage (**CCUS**) technology to capture the Co2 produced in the process. In addition, the Parties will consider an electrolysis plant that shall use in an optimised manner the fluctuating energy supply generated in particular from renewable sources and utilise any advantage from the must-run electricity at VPI Immingham.
- 1.7 Flexibilities will have to be analysed and the hydrogen generated will possibly have to be stored to be economically and technically viable to guarantee continuous availability of hydrogen and possibly identify other fields of application, such as provision of system services for transmission and/or distribution network operators (for example control energy market).
- 1.8 The Parties agree to collaborate on studies and enquiries building on each other's complementary commercial know-how in relation to the common objective in accordance with the terms of this MoU.
- 1.9 The Parties have the common objective of evaluating and developing a project to provide the most efficient and economic pathway to decarbonise both existing and future power generation, refining and industrial infrastructure in and around the Immingham area.
- 1.10 It is understood that each Party has different expertise and experiences and the selection of the Parties to this MoU has been with a view to maximising the effectiveness of this Project and to ensure its robust delivery.
- 1.11 Each Party enters into this MoU based upon an expected role within the Project and by signing this MoU each Party accepts the role that each Party is expected to deliver.
- 1.12 The Parties agree that:
 - (a) VPI's examination and role shall focus on developing a decarbonisation project and execution plan for the Immingham sub cluster;
 - (b) Uniper's examination and role shall focus on the development of hydrogen generation (if a hydrogen pathway is identified), either through ATR with CCUS or through electrolysis; and
 - (c) Philips' examination and role shall focus on supporting development of the Immingham sub cluster decarbonisation project with particular focus on identifying the optimum route to decarbonising the refining assets as part of the sub cluster project.

2 Commercial Terms

- 2.1 The Parties have entered into negotiations in relation to the Project and are each desirous of working together in good faith to implement the Project.
- 2.2 The Parties acknowledge that they intend to apply jointly for co-funding from the UK Government through UKRI's industrial strategy challenge fund programme (**Application**) and if the Application is successful, to enter into negotiations in good faith to agree a legally binding joint venture agreement to implement the Project through a newly formed SPV (**Formal Agreement**).

3 Time Limits

- 3.1 The Parties agree to negotiate in good faith with a view to submitting a joint Application on or before 31 May 2020.
- 3.2 Each Party may at any time upon serving written notice to the other Parties (which includes email), terminate negotiations for the Project and entry into the Formal Agreement, however, if it does so:
- (a) it shall be liable to the other Parties for its share of costs or expenses incurred in connection with the MoU up to the date of terminating their involvement in this MOU;
 - (b) it shall state the reasons for its termination in its notice; and
 - (c) it shall not affect the continuance in force of this Paragraph 3 and Paragraphs 4 to Paragraph 16 inclusive of this MoU.

4 Confidentiality

- 4.1 Each Party undertakes that it shall not for a period of three years after the date of this MoU disclose to any person any confidential information concerning the business, affairs, customers, clients or suppliers of the other Parties or of any member of the group of companies to which the other Parties belong without the disclosing Party's written consent, except as permitted by Paragraph 4.2.
- 4.2 Notwithstanding Paragraph 3.1, each Party may disclose the other Parties' confidential information without the disclosing Party's prior written consent:
- (a) to its and/or its Affiliates' employees, officers, representatives, sub-contractors, or advisers who need to know such information for the purposes of the evaluation of the Project and the negotiation of the Formal Agreement. Each Party shall ensure that its and its Affiliates' employees, officers, representatives or advisers to whom it discloses the other Parties' confidential information comply with this Paragraph 4;
 - (b) as may be required by law, a court or arbitral tribunal of competent jurisdiction or any governmental or regulatory authority or taxation authority or under any rule of any recognised stock exchange or listing authority (provided in any such case wherever possible notice of the need to make in such disclosure is provided to the relevant disclosing Party prior to such disclosure);
 - (c) to the extent that such confidential information is already known to the receiving Party on a lawful, non-confidential basis as at the date of disclosure;
 - (d) to the extent that such confidential information is already in the possession of the public or becomes available to the public other than through an act or omission of the receiving Party;
 - (e) to the extent that such confidential information is acquired independently from a third party that has the right to disseminate such information at the time it is acquired by the receiving Party; or
 - (f) to the extent that such confidential information is independently developed by the receiving Party or one of its Affiliates without reference to the confidential information.
- 4.3 No Party shall use the other Parties' confidential information for any purpose other than the evaluation of the Project and the negotiation of the Formal Agreement.

- 4.4 For the purpose of this paragraph 3, **Affiliate** means a company which, directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with a Party. For this purpose, control means the direct or indirect ownership of in aggregate fifty percent or more of voting capital and in relation to VPI expressly includes any entity in which Vitol Holding B.V. owns directly or indirectly fifty percent or more of the voting capital.

5 **Non-solicitation**

- 5.1 No Party shall, for a period of 12 months from the date of this MoU, (except with the prior written consent of all of the other Parties) directly or indirectly solicit or entice away (or attempt to solicit or entice away):

- (a) from the employment of another Party, any employee of another Party who is employed or engaged in any services which are relevant to the Project; or
- (b) any customer of the other Party who is in receipt of any services which are relevant to the Project.

- 5.2 A Party shall not be in breach of Paragraph 5.1(a) or Paragraph 5.1(b) as a result of running a national advertising campaign open to all comers and not specifically targeted at any of the staff or the customers of the other Party.

- 5.3 If a Party commits any breach of Paragraph 5.1, the breaching Party shall, without prejudice to any other rights or remedies of the claiming Party, on demand, pay to the claiming Party a sum equal to one year's basic salary or the annual fee that was payable by the claiming Party to that employee or worker plus the recruitment costs incurred by the claiming Party in replacing such person.

6 **No Exclusivity**

- 6.1 The Parties acknowledge and agree that the cooperation in relation to the Project and under this Agreement is not an exclusive arrangement. Nothing in this Agreement shall prevent Parties to this Agreement from collaborating on similar or related projects on a bilateral or multilateral basis.

- 6.2 The Parties shall not be restricted from dealing with other companies or organisations not party to this Agreement with respect to other projects (including, but not limited to, research or collaboration opportunities) which are substantively similar to the Project which is the subject of this Agreement.

- 6.3 Nothing in this Agreement is intended to, or shall operate to, preclude any of the Parties to this Agreement from moving forward with their own projects or developments, in the event that the Project is not selected to progress into ISCF Phase 2.

7 **Costs**

- 7.1 Uniper and Phillips agree to contribute towards the costs and expenses incurred by VPI and arising in respect of the Project and the Application (**Costs**) between them in accordance with and in the amounts set out in the table at Appendix A to this MoU.

- 7.2 Any matter included in the Work Plan shall be deemed approved by each of the Parties. Each Party acknowledges in particular that VPI has entered into a technical services agreement with Wood Group UK Limited (**Wood**) dated 13th February 2020 pursuant to which Wood has agreed to perform certain services in connection with the Project (**Wood Contract**) as included in the Work Plan.

- 7.3 Uniper and Phillips agree that they will make payment to VPI of the respective amount set out opposite their names in Appendix A to this MoU (representing such Party's contribution towards Costs) in accordance with Clause 8 and each of Uniper and Phillips shall pay:
- (a) 50% of the respective amount set out opposite their names in Appendix A to this MoU on the date of this MoU; and
 - (b) 50% of the respective amount set out opposite their names in Appendix A to this MoU on the date of receipt by VPI of the final invoice under the Wood Contract.
- 7.4 All Costs shall be incurred at VPI's sole discretion and save for any Party's contribution towards Costs set out in Appendix A to this MoU, all Costs shall be borne by VPI.
- 7.5 Save for as set out in Clause 7.4, in no circumstances shall any Party's contribution towards Costs set out in Appendix A to this MoU be increased without its prior written consent.
- 7.6 Each Party shall remain liable for any losses or liabilities incurred due to their own or the acts or omissions of their employees, officers, representatives, sub-contractors, or advisers. No Party intends that the other Parties shall be liable for any loss or liability that it suffers as a result of: (i) this MoU; or (ii) any acts or omissions of another Party or its employees, officers, representatives, sub-contractors, or advisers unless such loss or liability arises as a result of gross negligence, wilful misconduct or fraud.

8 Payment of Costs

- 8.1 All payments under Clause 7.3 shall become due from Uniper and Phillips 30 days after the dates set out in Clause 7.3 and shall be paid in full and in GBP by wire transfer into the Seller's nominated bank account (the bank account to have been indicated by the Seller in writing), without any offset, withholding, deduction or counterclaim of any kind whatsoever, and free of charges and commissions.
- 8.2 If any Party fails to make a payment due to VPI in respect of Costs by the due date, then the defaulting Party shall pay interest on the overdue sum from the due date until payment of the overdue sum, whether before or after judgment. Interest under this Clause 8.1 will accrue each day at 6% a year above the Bank of England's base rate from time to time, but at 6% a year for any period when that base rate is below 0%.

9 Project Governance

- 9.1 VPI shall be responsible for co-ordinating the Project and the Application and the other Parties shall provide VPI with all reasonable assistance required by VPI in preparing the Application and co-ordinating the Project.

10 Inadequacy of Damages

- 10.1 Except as expressly provided in this MoU, the rights and remedies provided under this MoU are in addition to, and not exclusive of, any rights or remedies provided by law.
- 10.2 In no event shall a Party shall be liable to the other Parties (whether under this MoU or otherwise in connection with it or in contract, tort, breach of statutory duty or otherwise in relation to the Project) for: (i) any loss of profit, cost of wasted overheads, loss of revenue, loss resulting from loss of contract, loss of use or

business interruption; or, (ii) for any liability for consequential or other indirect losses.

11 No Partnership

- 11.1 Nothing in this MoU is intended to, or shall be deemed to, establish any partnership or joint venture between the Parties, constitute any Party as the agent of the other Parties, nor authorise any of the Parties to make or enter into any commitments for or on behalf of the other Parties.

12 Variation

- 12.1 This MoU, including the Appendices, may only be varied by the written agreement of the Parties.

13 Third Party Rights

- 13.1 Unless it is expressly stated otherwise, this MoU does not give rise to any rights for a third Party to enforce any of its terms and a person who is not a party to this Agreement has no right under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this MoU.

14 Governing Law

- 14.1 This MoU, and the negotiations between the Parties in connection with the proposed Project and all disputes or claims (including non-contractual disputes or claims) arising out of or in connection with them or their subject matter or formation shall be governed by and construed in accordance with the law of England and Wales.

15 Jurisdiction

- 15.1 Each Party irrevocably agrees that the courts of England and Wales shall have exclusive jurisdiction to settle any dispute or claim (including any non-contractual disputes or claims) arising out of or in connection with this MoU or its subject matter or formation.

16 Language

- 16.1 This MoU is drafted in the English language.
- 16.2 Any notice given under or in connection with this MoU shall be in the English language and shall be sent by hand, courier or email to the other Parties at the addresses stated as follows and shall be effective upon the day of receipt if received before 4:30pm time on a working day at the relevant Party's time and place of receipt, or otherwise on the next working day:

VPI:

Address: 4th Floor, Nova South, 160 Victoria Street, London SW1E 5LB

Attention: The Directors

Email: Notices@vitol.com (cc: jjb@vitol.com)

Phillips:

Address: 200-202 Aldersgate Street, London EC1A 4HD

Attention: Managing Counsel Downstream & Commercial Europe

Email: ContractManagement@p66.com (cc: Mike.Wailes@p66.com)

Uniper:

Address: Franzlusstrasse 12, Düsseldorf 40219, Germany

Attention: The Directors

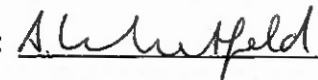
Email: hydrogen@uniper.energy (cc: peter.marshall@uniper.energy and anthony.landiers@uniper.energy)

- 16.3 A Party may change their contact details upon sending a written notice to the other Parties and such change shall take effect 5 (five) working days after receipt of such notice.
- 16.4 All other documents provided under or in connection with this MoU shall be in the English language.
- 16.5 The English language version of this MoU and any notice or other document provided under or in connection with this MoU, shall prevail if there is a conflict.

In witness of which this document has been executed by the Parties on the date set out at the beginning of this document.

Certification Of Authority To Sign Agreement

The persons signing this Agreement on behalf of respective companies hereto certify by said signatures that they are duly authorised to sign this Agreement.

Phillips 66 LimitedSigned: Date: 19 FEB 20**Uniper Energy Storage GMBH**Signed: Date: 2 March 2020**VPI Immingham LLP**Signed: Date: 24th Feb 20

Execution page

[INSERT EXECUTION BLOCKS AS REQUIRED]

Appendix A: Cost Proportions

Party	Proportion of Costs
Phillips	£200,000
Uniper	£100,000

Phase Total			£720,000					£135,000	
COST CATEGORY									
1.0 ADMIN & OFFICE									
Total Admin & Office			£0	£0	£0	£0	£0	£0	£0
2.0 TEAM									
Total Team			£0	£0	£0	£0	£0	£0	£0
3.0 COMMUNICATIONS									
Total Comms			£0	£0	£0	£0	£0	£0	£0
4.0 CONSULTANTS									
4 Project pathway development	Imperial/Sheffield	£80,000		£20,000	£20,000	£20,000	£20,000		
4 Other									
Total Consultants			£0	£20,000	£20,000	£20,000	£20,000	£0	£0
5.0 ENGINEERING									
5 Engineering WP1 - Optioneering	Wood	£200,000			£70,000	£65,000	£65,000		
5 Engineering WP2 - Design	Wood	£300,000					£100,000	£100,000	£100,000
5 Engineering WP3 - FEED Planning	Wood	£60,000						£30,000	£30,000
5 Engineering WP4 - Pre-FEED (1)	Wood	£120,000							£40,000
6 GE Feasibility evaluation support	GE	£30,000				£10,000	£10,000	£10,000	
6 Turbine PDP	GE	£0							
6 Engineering WP5 - Pre-FEED (2)	Wood	£0							
6 H2 production expansion	TBD	£0							
Total Engineering			£0	£0	£70,000	£75,000	£175,000	£140,000	£130,000
6.0 PERMITTING & CONSENTING									
6 Permitting plan development	AECOM/ERM	£50,000		£12,500	£12,500	£12,500	£12,500		
6 Permit Development	AECOM/ERM	£60,000							£10,000
6 Legal		£15,000							£2,500
6 Other									
Total Permits & Consenting			£0	£12,500	£12,500	£12,500	£12,500	£0	£0
GROSS PROJECT TOTALS			£0	£32,500	£102,500	£107,500	£207,500	£140,000	£130,000



VPI IMMINGHAM LLP

Registered Office:
4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB
VAT Registration: 167 5101 16

Invoice No. VPII00436
Invoice Date. 13/08/2020

SENT TO:
Phillips 66 Limited
7th Floor,
200-202 Aldersgate Street,
London,
EC1A 4HD

INVOICE

DETAILS	Vat Rate	Net £	Vat £	Gross £
Proportion of costs (50%) in accordance with the Memorandum of Understanding (MOU) dated 14th February 2020	20.0%	100,000.00	20,000.00	120,000.00
Purchase order: 4527670439				
Payment Due Date: 30 days from date of invoice				
Bank Payment Details: JP Morgan Chase Bank IBAN: GB98CHAS60924241303895				
Account name: VPI IMMINGHAM LLP Account No: 41303895 Sort Code: 60-92-42	AMOUNT DUE GBP	£100,000.00	£20,000.00	£120,000.00
Quoting Ref: VPII00436	VAT TOTAL GBP	£20,000.00		
	INVOICE TOTAL GBP	£120,000.00		

VPI DISCLAIMER:

TO INCREASE OUR FINANCIAL TRANSACTIONS SECURITY. PLEASE NEVER UPDATE IN YOUR SYSTEM(S) ANY NEW BANK ACCOUNT OR MAKE ANY CHANGE TO DETAILS ON EXISTING VPI BANK ACCOUNTS WITHOUT HAVING UNDERTAKEN A PROPER ORAL VERIFICATION (CALL-BACK) WITH YOUR EXISTING VPI CONTACT.
IN ADDITION, NOTE THAT VALID EMAILS ISSUED BY VPI GROUP ALWAYS END WITH @VPI-UK.COM
DO PROMPTLY INFORM US SHOULD YOU NOTICE SUSPICIOUS EMAILS SENT FROM ANOTHER DOMAIN, PRETENDING TO BE FROM VPI GROUP OR ITS AFFILIATES.
MANY THANKS IN ADVANCE FOR YOUR KIND UNDERSTANDING AND SUPPORT.



VPI IMMINGHAM LLP

Registered Office:
4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB
VAT Registration: 167 5101 16

Invoice No. VPII00416
Invoice Date. 28/04/2020

SENT TO:
Phillips 66 Limited
7th Floor,
200-202 Aldersgate Street,
London,
EC1A 4HD

INVOICE

DETAILS	Vat Rate	Net £	Vat £	Gross £
Proportion of costs (50%) in accordance with the Memorandum of Understanding (MOU) dated 14th February 2020	20.0%	100,000.00	20,000.00	120,000.00
Purchase order: 4527670439				
Payment Due Date: 30 days from date of invoice				
Bank Payment Details: JP Morgan Chase Bank IBAN: GB98CHAS60924241303895				
Account name: VPI IMMINGHAM LLP Account No: 41303895 Sort Code: 60-92-42	AMOUNT DUE GBP	£100,000.00	£20,000.00	£120,000.00
Quoting Ref: VPII00416	VAT TOTAL GBP	£20,000.00		
	INVOICE TOTAL GBP	£120,000.00		

VPI DISCLAIMER:

TO INCREASE OUR FINANCIAL TRANSACTIONS SECURITY. PLEASE NEVER UPDATE IN YOUR SYSTEM(S) ANY NEW BANK ACCOUNT OR MAKE ANY CHANGE TO DETAILS ON EXISTING VPI BANK ACCOUNTS WITHOUT HAVING UNDERTAKEN A PROPER ORAL VERIFICATION (CALL-BACK) WITH YOUR EXISTING VPI CONTACT.
IN ADDITION, NOTE THAT VALID EMAILS ISSUED BY VPI GROUP ALWAYS END WITH @VPI-L.COM
DO PROMPTLY INFORM US SHOULD YOU NOTICE SUSPICIOUS EMAILS SENT FROM ANOTHER DOMAIN, PRETENDING TO BE FROM VPI GROUP OR ITS AFFILIATES.
MANY THANKS IN ADVANCE FOR YOUR KIND UNDERSTANDING AND SUPPORT.

APPENDIX 3

VPI LLP HUMBER ZERO CCS PROJECT

PROPOSED HEADS OF TERMS FOR CCS SITE OPTION AND LEASE

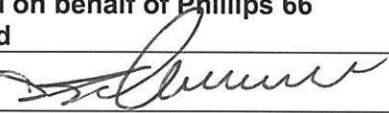
Item	Comments
Landlord	Phillips 66 Limited (00529086) of 7th Floor, 200-202 Aldersgate Street, London, EC1A 4HD ("P66")
Tenant	To align with the Collaboration Agreement the option holder will be VPI Immingham LLP ("VPI LLP"). The option can be assigned to a third party subject to the assignee being an Acceptable Assignee or procuring an Acceptable Guarantor, as such terms are defined in the draft option agreements referred to as the 'Property Agreements' within the Compromise Agreement dated 7 August 2020 (see appendix). The lease can be taken by another company that is an Affiliate (as defined in the Main Site Lease, (see appendix) of Vitol and/or VPI LLP (a "CCS Co"). The identity of CCS Co. is to be confirmed prior to any such assumption of the lease. CCS Co shall be an Acceptable Assignee or procure an Acceptable Guarantor.
Property	Land on the west side of Rosper Road, South Killingholme, Immingham, registered at HM Land Registry with freehold title number HS299803 as shown edged red on the attached plan marked 'Plan 1'. If during the Option Period the Tenant is able to demonstrate to the Landlord's reasonable satisfaction that additional land is reasonably required for the development and operation of the VPII Project (as defined in a Collaboration Agreement dated 16 April 2021 between P66 and VPI LLP) then the Landlord shall make available only such additional areas of land as are shown to be required; such areas of land shall be limited however to land within that area edged red on Plan 2 (the "Incremental Land"). Following service of an option notice pursuant to the Option and for a period only of 5 years from the date of these Heads of Terms the landlord agrees to grant to the tenant a temporary lay-down and construction licence, in connection with the VPII Project, (such licence to be excluded from the provisions of the Landlord and Tenant Act 1954, and to be terminable by the landlord on 6 month's notice) of such areas of land shown outlined in green on Plan 1 (to include any areas of the Incremental land not being proven to be required for the VPII Project) that the landlord does not itself require for the development, either for itself or in conjunction with third parties, of a CO2 transportation and logistics facility . The Parties shall meet monthly during the first 14 months of the Option period in order to assess additional land requirements as referred to above.
OPTION AGREEMENT	
Option	The Tenant will be granted an option by the Landlord to take (or for CCS Co to take) a lease over the Property.

Option Period	The Option Period will be 3.5 years from the date of the grant of the Option.
Conditions	The Option will be conditional upon:- 1. A positive final investment decision being taken by the board of directors or members of VPI LLP in respect of the VP11 Project and written notice of such decision being served on P66; and 2. The Parties entering into good faith discussions and agreeing any amendments required to the existing energy supply agreements in place between the Parties.
Termination	The Tenant will be permitted to terminate the Option Agreement at any time during the Option Period by giving not less than 60 days' prior written notice to the Landlord.
Option Fee	A peppercorn.
Rights Granted during Option Period	The right of entry for the Tenant and its authorised personnel (to include contractors, sub-contractors, employees, licensees etc.) onto the Property for the purposes of carrying out ecological surveys, environmental surveys and other intrusive and non-intrusive site investigations). Prior authorisation must be obtained before entry onto the Property and the Tenant shall comply with such reasonable regulations and requirements pertaining to such entry as the Landlord shall consider necessary. Where such surveys and site investigations are intrusive, these shall additionally be subject to completion of a suitable licence and indemnity and to the Landlord's approval of the Tenant's proposed method statements (the agreement of such licence and approval of such method statements not to be unreasonably withheld or delayed).
Landlord's Covenants during Option Period	The Landlord will not be permitted to grant any other options or leases over the Property during the Option period. The Landlord will not grant any new rights in favour of any third party over the Property which may prejudice the VP11 Project without the prior written consent of the Tenant such consent not to be unreasonably withheld or delayed. At the cost of the Tenant the Landlord will enter into any planning agreements, wayleaves or other agreements (on terms agreed by the Landlord acting reasonably) as shall be reasonably required by the Tenant to facilitate its use and operation of the Project. Provided it shall be reasonable for the Landlord to refuse to enter into any agreement that might reasonably be expected to have a detrimental impact on the use and operation of the Refinery. In the event that the parties' joint studies discover any utilities or service media on the Property and, if requested by the Tenant, the Landlord will permit and allow any such utilities or service media (including drains, cables, pipes etc) located on the Property which are or may become a nuisance or obstacle to the Tenant's use of the Property for the Permitted Use at the Tenant's cost to be relocated within the Property, diverted or removed as necessary. Other standard restrictions will be placed on the Landlord's dealings with the Property, such as a restriction on the submission of planning

	applications, an obligation not to object or support any objection to any application for consents in relation to the VPII Project, and a restriction on the erection of buildings on the Property throughout the Option Period.
Alienation	The Tenant shall be entitled to assign the benefit of the Option Agreement to any group company, funder or project SPV with the Landlord's consent such consent not to be unreasonably withheld provided that requirements as to an Acceptable Assignee / Guarantor are met. The Tenant shall be entitled to assign the benefit of the Option Agreement to CCS Co subject to that company satisfying the Acceptable Assignee/Guarantor test without Landlord's consent. The Landlord shall not dispose of the Property without first obtaining a deed of covenant from any purchaser to comply with the terms of the Option Agreement.
CCS SITE LEASE	
Lease Term	The Lease will be for a term of years expiring on 12 February 2047
Lease Premium	A peppercorn.
Rent	Rent – market rent – based on RICS Valuation – Global Standards (Red Book Global) as augmented by the current UK Supplement Any dispute to be referred to independent third party dispute resolution
Rent Review	As provisions contained in the Main Site Lease.
Permitted Use	The Property is to be used by the Tenant for all activities relating to the VPII Project including the construction, installation, maintenance and operation of carbon capture facilities and all associated plant and equipment, and any other activities reasonably required for a carbon capture and storage project associated with the use of the Main Site Lease.
Rights Granted during Lease Term	CCS Site: Rights for the Tenant to: • Use the Property for the Permitted Use; • Subject to the consents required under the Main Site Lease to enter onto so much of the CHP Site as is necessary with or without vehicles, plant and machinery for all purposes necessary to make connections to the stack and electricity supply located thereon; • Subject as above to construct, install, lay, maintain and operate infrastructure and service media necessary to make the connections outlined above from the CHP Site to the Property; • Relocate the Killingholme Ditch identified on Plan 1 within the Property.
Landlord's Covenants	These will be broadly the same as the covenants in the Option Agreement.

Reservations	1. to access common systems and infrastructure constructed within the Property. 2. of rights to use existing pipelines and utilities crossing the Property. 3. unencumbered use and flow of Killingholme Ditch identified on Plan 1), access rights etc. In the event the ditch is relocated such rights to apply to the relocated ditch. All reserved rights are subject to conditions on entry per the Main Site Lease.
Alienation	As per the Option Agreement. The Tenant shall be entitled to charge the Lease in accordance with the provisions of the Main Site Lease For the avoidance of doubt, references to the Car Park Lease in the Main Site Lease shall be deemed <i>pro non scripto</i> for this purpose. Change of control is permitted without the Landlord's consent.
Break Rights/Termination	In the event the Main Site Lease determines for any reason the CCS Site Lease shall also determine. Usual commercial forfeiture provisions to be included.
Insurance	Insurance provisions to follow principles agreed in the Main Site Lease.
Repair / Reinstatement	Repair: Tenant to be responsible for keeping all plant and other apparatus installed on the Property in a good repair and safe condition, compliant with all relevant laws and regulations. The exterior of the property shall be landscaped and kept clean and tidy. See under Environmental Liability the Tenant shall not be liable for any contamination identified as present in the Property by a schedule of condition to be undertaken as part of the parties' joint studies. Reinstatement: At the end of the Term the Tenant may (and if requested by the Landlord or required by planning must) remove the plant and any other apparatus, equipment or works erected or installed on the Property and will reinstate the Property. Reinstatement provisions to follow those agreed in the Main Site Lease where relevant.
Additional Tenant Covenants	Not knowingly to do anything on the Property to affect the COMAH risk of the Landlord's adjoining property.
Environmental Liability	An environmental baseline study will be carried out to evidence the baseline condition of the Property at the start of the Term. The Lease shall contain reciprocal indemnities in respect of contamination (including hazardous substances which have migrated to/from the Property) with reference to that baseline.
Equipment	All plant, machinery, equipment and any other fixtures and fittings brought on to the Property by the Tenant shall remain the property of the Tenant and shall not be regarded as a fixture to the Property.

1954 Act	The security of tenure provisions of Part II of the Landlord and Tenant Act 1954 are to be excluded from the Lease.
MISCELLANEOUS	
Landlord's Solicitor	P66 In House Legal Team
Tenant's Solicitor	Pinsent Masons LLP 141 Bothwell Street, Glasgow, G2 7EQ Contact: Graham Wallace Tel: 0141 567 8652 Email: graham.wallace@pinsentmasons.com

These Heads of Terms are not intended to create any legally binding obligations and are subject to contract and approval. The proposed Option and Lease Agreement may contain further terms as the Parties may require, including additional terms on matters that are covered in this document.	
Signed on behalf of Phillips 66 Limited	Signed on behalf of VPI Immingham LLP
Signed 	Signed
Print Name DARREN CUNNINGHAM	Print Name Simon Hale
Dated 08/02/22	Dated 9 February 2022

SCHEDULE (FOR INFORMATION ONLY)

EXISTING AGREEMENTS OTHER PARTIES AND ADDITIONAL DOCUMENTS REQUIRED	
Existing Agreements	
Main Site Lease	A lease of the main CHP Site dated 29 August 2013 between P66 and VPI LLP
Car Park Lease	A lease of area of car park/laydown adjacent to the Main Site Lease dated 23 July 2013 (Reversionary Lease) between P66 and VPI LLP
First Pipeline Lease (HOR)	A lease of gas pipeline dated 16 February 2005 between P66 and VPI LLP as varied by Deed dated 23 July 2013 between P66 and VPI LLP
Second Pipeline Lease (East End Farm)	A lease of gas pipeline dated 16 February 2005 between P66 and VPI LLP as varied by Deed dated 23 July 2013 between P66 and VPI LLP
ESA	An agreement for the supply of steam and power to P66 made between VPI LLP and P66 dated 15 January 2002.
Compromise Agreement dated 7 August 2020	An agreement between P66 and VPIB dated 7 August 2020 whereby VPIB have the right to call for P66 to execute and complete the following options: • To vary the Main Site Lease • To vary and assign to PipeCo the First and Second Pipeline leases • To vary and assign to PipeCo the Car Park Lease • For VPIA and VPIB to take a pipebridge/pipeline easement.
Other Parties	
VPI Immingham Energy Park A Limited – 'VPIA' VPI Immingham B Limited – 'VPIB' PipeCo - an entity intended to be set up within the corporate group of VPI LLP and which will be party to the relevant documents to be entered into pursuant to the Compromise Agreement.	
Additional Documents Required	
Conditional Option to vary the Main Site Lease	Option conditional per CCS Site option The Main Site Lease will need to be varied in order to allow the CCS Site to connect into the CHP site's stack as well as any other interfaces (such as electricity or access). A corollary of these changes may also be amendments to the existing VPI A and B option agreements existing in respect of the Main Site Lease.
Conditional Option to vary Car Park Lease	Option conditional per CCS Site option The Car Park Lease will need to be amended in order to cater for access / other use in connection with the CCS Site. The VPI B option to vary and assign may also need to be amended.
Option to vary First and Second Pipeline Leases	The gas pipeline route runs directly beneath the proposed connection between the CCS Site Lease and the Main Site Lease and, as such, interface arrangements may need to be considered requiring a variation to these leases, as possibly varied pursuant to the options referred to above.

APPENDIX 4

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1. Introduction and EIA Methodology

1.1 Background

- 1.1.1 This Environmental Statement (ES) has been prepared by AECOM Limited (AECOM) on behalf of VPI Immingham LLP (VPI) and Phillips 66 Limited (Phillips 66) ('The Applicants') in relation to planning applications ('the Applications') for the construction, operation and maintenance of two proposed Post-Combustion Carbon Capture (PCC) developments and associated facilities located at VPI Immingham Combined Heat and Power (CHP) Plant and Phillips 66's Humber Refinery ('the Proposed Developments'). The Proposed Developments comprise the first phase of the Humber Zero project.
- 1.1.2 This ES presents the findings of the Environmental Impact Assessment (EIA) undertaken in connection with the Proposed Developments.
- 1.1.3 The Proposed Developments will be separately consented under the Town and Country Planning Act 1990. Two planning applications will be submitted – one for the Proposed VPI Development and one for the Proposed Phillips 66 Development. In recognition of the inter-related nature of the Proposed Developments, the EIA for both applications is integrated and reported in this ES.
- 1.1.4 This chapter is supported by Figure 1.1 (ES Volume III), which illustrates the locations of the Proposed Developments, and Figures 1.2 and 1.3 (ES Volume III) which illustrate the boundaries of the two planning application sites ('the Phillips 66 Site' and 'the VPI Site' respectively).

1.2 The Applicants

- 1.2.1 VPI Immingham LLP own and operate the gas-fired CHP Plant located on Rosper Road in Immingham. The plant operates 24/7 to provide the electricity and steam that is critical to the operation of the neighbouring refineries and also to supply electricity to the National Grid.
- 1.2.2 Phillips 66 Limited own and operate the Humber Refinery at Eastfield Road, South Killingholme. The Humber Refinery is one of the most sophisticated in Europe; it is highly integrated, energy efficient and manufactures both fuels and specialist products. It is Europe's only supplier of synthetic graphite coke for Electric Vehicle batteries and consumer goods and is a UK leader in the production of lower carbon fuels.
- 1.2.3 The designs of the Proposed Developments demonstrate the Applicants' progress towards decarbonisation.

1.3 The Proposed Developments

- 1.3.1 The Proposed Developments will deliver up to 3.8 million tonnes (also known as megatonnes) per annum (Mtpa) of abated carbon dioxide (CO₂) emissions via:
- PCC retrofit to two gas turbines (GT1 and GT2) and two auxiliary gas boilers at the VPI Immingham CHP Plant ('the Proposed VPI Development'); and
 - PCC retrofit to the Fluid Catalytic Cracker (FCC) stack at the Humber Refinery ('the Proposed Phillips 66 Development').

Progress of the Proposed Developments is subject to the necessary consents being granted and government policy/ funding support being in place to enable final investment decisions to be made.

- 1.3.2 Further information on the Proposed Developments is provided in ES Chapter 3: Proposed Developments Description, Need and Alternatives Considered and ES Chapter 4: Construction Programme and Management.
- 1.3.3 The VPI Site and the Phillips 66 Site (collectively 'the Sites') are both located wholly within the administrative boundary of North Lincolnshire Council (NLC).
- 1.3.4 The VPI Site (see Figure 1.3 in ES Volume III) comprises an area of 28.51 hectares (ha) and includes the existing CHP Plant and the parcel of vacant land directly to the south and south-east of the CHP Plant where the PCC plant will be located.
- 1.3.5 The Phillips 66 Site (see Figure 1.2 in ES Volume III) comprises an area of 15.68 ha and includes the northern part of the Humber Refinery and areas to the north-east of the Refinery (some overlapping with the VPI Site) which are required for connections including the CO₂ pipeline connection to the CO₂ transmission network.
- 1.3.6 Further information on the Sites is provided in ES Chapter 2: Sites and Site Surroundings.
- 1.3.7 All definitions of the Proposed Development elements and parts of the Site are defined in the ES Glossary.
- 1.3.8 The CO₂ transmission network that the Proposed Developments will connect into is under development by others. There are two potential networks that the Proposed Developments could be connected to:
- the proposed Viking CCS (formerly V Net Zero) CO₂ transport and storage network (promoted by Harbour Energy) which is anticipated to commence adjacent to the Sites (to the south of the VPI CHP Plant) and will transport CO₂ in dense phase (high pressure) via a below ground pipeline to Theddlethorpe and out to the Viking fields (which have 300 CO₂ Mt storage potential) via an existing subsea pipeline; and/ or
 - the East Coast Cluster's Humber Low Carbon Pipelines (HLCP) (promoted by National Grid) which is anticipated to be located approximately 2 km to the north of the Sites and will transport captured CO₂ across the Humber estuary to Easington, and from there via an offshore pipeline to the Endurance saline aquifer.
- 1.3.9 The decision as to which network will be connected to by each of the Proposed Developments will be made following Government funding announcements and commercial discussions.

1.4 Consenting Regime and Requirement for EIA

- 1.4.1 As noted above, planning consents for the Proposed Developments are to be sought via two planning applications under the Town and Country Planning Act 1990.
- 1.4.2 With regards to EIA, the relevant regulations are the Town and Country Planning (EIA) Regulations 2017 (as amended) (hereafter referred to as the 'EIA Regulations').
- 1.4.3 The Proposed Developments are of a type which falls within Schedule 1 Part 23 of the EIA Regulations ("*Installations for the capture of carbon dioxide streams for the purposes of geological storage pursuant to Directive 2009/31/EC from installations referred to in this Schedule, or where the total yearly capture of carbon dioxide is 1.5 megatonnes or more*"). As such the Proposed Developments comprise 'EIA development' and an EIA is required to accompany the Applications.
- 1.4.4 Although not mandatory, an EIA Scoping Report was submitted to NLC to commence the EIA process and represented the first notification to NLC, as the Local Planning Authority (LPA), that the Applicants will undertake an EIA in respect of the Proposed Developments and produce an ES to report the findings of the EIA.
- 1.4.5 EIA is an iterative process that feeds into the engineering design process to mitigate significant environmental effects where they are predicted to occur. The final design iteration, along with the findings of the EIA are reported in this ES, in accordance with EIA Regulations.

- 1.4.6 The ES covers both the Proposed VPI Development and the Proposed Phillips 66 Development (including assessment of each in isolation as well as the whole Proposed Development) and is submitted with each of the Applications.
- 1.4.7 The Applicant has formally notified NLC in writing under Regulation 8(1)(b) of the EIA Regulations that an ES would be prepared in respect of the Proposed Development. The Proposed Development is therefore 'EIA development' for the purposes of the EIA Regulations and this ES summarises the results of the EIA work undertaken.

1.5 EIA Scoping

- 1.5.1 The issues that the Applicant considered the EIA should address were identified in the EIA Scoping Report (Appendix 1A in ES Volume II) submitted to NLC pursuant to Regulation 15 of the EIA Regulations on 25 January 2022. The EIA Scoping Report was developed with reference to standard guidance and best practice following initial consultation with a number of statutory consultees and was informed by the EIA team's experience of working on a number of similar projects.
- 1.5.2 NLC's Scoping Opinion was received on 11 March 2022, including the formal responses received from consultees, and is presented within Appendix 1B (ES Volume II). Key issues raised in the Scoping Opinion are summarised at the start of each technical chapter of the ES, with all matters having been considered during the EIA process.
- 1.5.3 The EIA scoping process concluded that the following environmental topics required assessment and would be reported in the ES:
- Air Quality;
 - Noise and Vibration;
 - Traffic and Transport;
 - Water Resources and Flood Risk;
 - Landscape and Visual Amenity;
 - Cultural Heritage;
 - Ecology and Nature Conservation;
 - Geology, Hydrogeology and Land Contamination;
 - Waste Management;
 - Climate Change and Carbon;
 - Major Accidents and Disasters; and
 - Socio-economics and Human Health.

1.6 EIA Methodology and Reporting

- 1.6.1 The EIA has been carried out in accordance with the requirements defined by the EIA Regulations. The information presented in the ES describes the findings of the EIA.
- 1.6.2 The ES sets out the process followed during the EIA including the methods used for the collection of data and for the identification and assessment of impacts and effects, and the findings of the EIA. Any assumptions made or limitations on the assessments are clearly identified.
- 1.6.3 The EIA process is designed to be capable of considering, and sensitive to, changes that occur as a result of changes to the design, including any mitigation measures that are incorporated during the EIA.
- 1.6.4 The EIA is based on a number of related activities, as follows:

- establishing existing baseline conditions;
 - consultation with statutory and non-statutory consultees throughout the pre-planning application process;
 - consideration of relevant local, regional and national planning policies, guidelines and legislation relevant to EIA;
 - consideration of technical standards for the development of significance criteria;
 - review of secondary information, previous environmental studies and publicly-available information and databases;
 - physical surveys and monitoring;
 - desk-top studies;
 - computer modelling;
 - reference to current legislation and guidance; and
 - expert opinion.
- 1.6.5 Impacts are considered on the basis of their magnitude, duration and reversibility. Cumulative and combined effects are also to be considered where appropriate. Significance is evaluated on the basis of the scale of the impact and the importance or sensitivity of the receptors, in accordance with standard assessment methodologies (major, moderate, minor and not significant).
- 1.6.6 Where likely significant environmental effects are identified in the assessment process, measures to mitigate these effects are put forward.
- 1.6.7 The EIA adopts a worst-case assessment basis, based on the Proposed Developments' design and adopting the principles of the Rochdale Envelope, wherever specific parameters cannot yet be fixed for the Proposed Development. This is detailed further in Chapter 3: Project Description, Need and Alternatives (ES Volume I).

Structure of the ES

- 1.6.8 The structure of the ES reflects the assessment topics agreed through the EIA Scoping process.
- 1.6.9 The ES comprises the following documents:
- **Non-Technical Summary (NTS):** this document provides a summary of the key issues and findings of the EIA in non-technical language.
 - **Volume I: Environmental Statement Main Text.** This contains the full text of the EIA with the chapter headings as follows:
 1. Introduction and EIA Methodology;
 2. Site and Site Surroundings
 3. Proposed Developments Description, Need and Alternatives;
 4. Construction Programme and Management;
 5. Policy Context;
 6. Air Quality;
 7. Noise and Vibration;
 8. Traffic and Transport;
 9. Water Environment and Flood Risk;
 10. Landscape and Visual Amenity;
 11. Cultural Heritage;

12. Ecology and Nature Conservation;
13. Geology, Hydrogeology and Land Contamination;
14. Climate Change;
15. Materials and Waste;
16. Major Accidents and Disasters;
17. Socio-economics and Human Health;
18. Cumulative and Combined Effects; and
19. Summary of Significant Environmental Effects.

- **Volume II:** Figures
- **Volume III:** Technical Appendices: These provide supplementary details of the environmental studies conducted during the EIA including relevant data tables, figures and photographs.

Structure of the Technical Chapters

- 1.6.10 Technical Chapters 6 to 17 of the ES are structured based on standard subheadings, as described below.

Section 1 Introduction

- 1.6.11 The Introduction briefly summarises the scope of the assessment presented within the chapter.

Section 2 Legislation and Planning Policy Context

- 1.6.12 The Legislation and Planning Policy Context section provides a brief overview of the relevant legislation, planning policy and technical guidance relevant to the assessment.

Section 3 Assessment Methodology and Significance Criteria

- 1.6.13 The assessment method incorporates feedback from consultation that has been undertaken throughout all stages of the project, highlighting any key issues that have arisen from the EIA scoping exercise that have been specifically addressed within the EIA.
- 1.6.14 The methods used in undertaking the technical study are outlined in this section with reference to published standards, guidelines and relevant significance criteria.
- 1.6.15 The method for evaluating the significance of effects before and after mitigation is described with reference to definitive standards, accepted criteria and legislation where available. Where it is not possible to quantify impacts, qualitative assessments are carried out, based on available knowledge and professional judgment. Where uncertainty exists, this is noted.
- 1.6.16 Specific criteria for each technical assessment are set out, giving due regard to:
- extent and magnitude of the impact;
 - impact duration (whether short, medium or long term);
 - impact nature (whether direct or indirect, reversible or irreversible);
 - whether the impact occurs in isolation, is cumulative or interactive;
 - performance against environmental quality standards where relevant;
 - sensitivity of the receptor; and
 - compatibility with environmental policies and standards.
- 1.6.17 For issues where definitive quality standards do not exist, significance may be based on the:
- local, district, regional or national scale or value of the resource affected;
 - number of receptors affected;

- sensitivity of these receptors; and
- duration of the impact.

1.6.18 In order to provide a consistent approach to expressing the outcomes of the various studies undertaken as part of the EIA, and thereby enable comparison between effects upon different environmental components, the following matrix is applied throughout the ES to define effects, unless otherwise specified and explained.

Table 1.1: Significance of effects matrix

Magnitude of Impact	Sensitivity of Receptor				
	Negligible	Low	Medium	High	Very High
High	Minor	Moderate	Moderate	Major	Major
Medium	Negligible	Minor	Moderate	Moderate	Major
Low	Negligible	Negligible	Minor	Moderate	Moderate
Negligible	Negligible	Negligible	Negligible	Minor	Minor

- 1.6.19 For the purpose of this EIA, moderate and major effects (shaded orange in the matrix above) are deemed 'significant', and where possible mitigation measures have been identified to reduce the residual effects to 'not significant' (minor or negligible).
- 1.6.20 Each of the technical chapters provide the criteria, including sources and justifications, for quantifying the different levels of residual effect. Where possible, this has been based upon quantitative and accepted criteria (for example, the National Air Quality Strategy objectives or noise assessment guidelines), together with the use of value judgment and expert interpretation to establish to the scale of an effect.

Section 4 Baseline Conditions (including Future Baseline)

- 1.6.21 In order to assess the potential impacts and effects of the Proposed Developments, it is necessary to determine the environmental conditions that currently exist on the Phillips 66 Site and VPI Site and in the surrounding area, for comparison. These are known as the existing baseline conditions. Baseline conditions are determined using the results of site surveys and investigations or desk-based data searches, or a combination of these, as appropriate.
- 1.6.22 The EIA also considers future baseline conditions taking account of any planned or likely changes to the existing baseline, for comparison to future 'with development' scenarios – for example, future baseline flood risk with climate change.

Section 5 Development Design and Impact Avoidance

- 1.6.23 Measures that have been integrated into the Proposed Developments in order to avoid or reduce adverse environmental effects will be described. Such measures may include refinement of the design and layout of the Proposed Developments to avoid impacts on sensitive receptors, implementation of Environmental Management Plans, and adherence of relevant legislation, guidance and best practice. The assessment of impacts and effects in the next section takes account of these measures already being in place.

Section 6 Likely Impacts and Effects of the Proposed Developments

- 1.6.24 This section identifies the likely impacts and effects resulting from the Proposed Developments. The likely impacts and effects associated with the Proposed Phillips 66 Development and the Proposed VPI Development are assessed separately as well as together (project-wide) to provide transparency and clarity to the planning process.
- 1.6.25 The magnitude of impacts is defined with reference to the relevant baseline conditions (existing or future, as appropriate), and effects are determined in accordance with the identified methodology.

- 1.6.26 The technical assessments identify the environmental impacts of the Proposed Developments at key stages in their construction, operation (including maintenance) and eventual decommissioning.
- 1.6.27 The assessment scenarios that are considered for the purposes of the EIA (and considered in the ES) are as follows:
- Existing Baseline without the Proposed Developments – the year that the baseline data has been collected;
 - Future Baseline without the Proposed Developments – for comparison respectively with the construction and operation scenarios described below;
 - Construction of the Proposed Developments;
 - Opening and/ or Operation (including maintenance) of the Proposed Developments – where opening represents the start of operation; and
 - Decommissioning of the Proposed Developments.

Section 7 Mitigation and Enhancement Measures

- 1.6.28 The Mitigation and Enhancement Measures section will describe the measures that will be implemented by the Applicants to reduce any significant adverse effects identified by the assessment and enhance beneficial effects during construction and operation of the Proposed Developments.

Section 8 Residual Effects and Conclusions

- 1.6.29 Effects of the Proposed Developments remaining following the implementation of available mitigation measures are known as 'residual effects'. These are discussed for each of the potential effects, and their significance level identified.
- 1.6.30 As for the 'before mitigation' effects, residual effects associated with the Proposed Phillips 66 Development and the Proposed VPI Development will be assessed separately as well as together (project-wide) to provide transparency and clarity to the planning process.

1.7 Statement of Competence

- 1.7.1 As required under Regulation 18(5)(b) of the EIA Regulations, an ES must be accompanied by a statement outlining the relevant expertise or qualifications of those involved in its preparation. A statement of competence of the EIA coordinators and the technical specialists that have provided expert input to the ES is included as Appendix 1C (ES Volume II).

1.8 Consultation

- 1.8.1 Consultation is integral to developing the proposals and related assessments that underpin a planning application and the EIA process. The views of consultation bodies and information provided by the local community serve to focus the environmental studies and to identify specific issues that require further investigation, as well as to inform aspects of the design of the Proposed Development. Consultation is an ongoing process as part of the design development.
- 1.8.2 Consultation with statutory consultees regarding the technical scope and approach to the EIA has been ongoing throughout the EIA process, and is described in the technical chapters of this ES.
- 1.8.3 Public consultation has also been undertaken in accordance with a consultation strategy agreed with NLC. This has included a project website, newsletters, social media, meetings with local councillors, communications with the Humber Refinery Community Advisory Committee, in-person events at local venues and interactive virtual events. Feedback has been collected via the events, feedback forms (postal and online), the project website, email and freepost.

- 1.8.4 Feedback has been analysed and given regard during the finalisation of the planning applications and this ES.
- 1.8.5 A summary of the public consultation that has been undertaken, the feedback received and the responses made, is provided in the Consultation Report that accompanies the planning applications.

1.9 References

Department for Business, Energy and Industrial Strategy (2021) *Industrial Decarbonisation Strategy*. [Available at] [Industrial Decarbonisation Strategy \(publishing.service.gov.uk\)](https://www.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/94421/industrial-decarbonisation-strategy.pdf)

APPENDIX 5



Phillips 66 Limited
Humber Refinery
South Killingholme
North Lincolnshire
DN40 3DW
Tel 01469 555606

5th June 2023

VPI Immingham LLP
Rosper Road
South Killingholme
Immingham
DN40 3DZ
For the Attn of: VPI Manager

By recorded delivery

Dear Sirs,

RE: Energy Services Agreement between VPI Immingham LLP (VPI) and Phillips 66 Limited (Phillips 66) dated 15 January 2002 as amended from time to time ("the ESA")

As discussed at our meeting on 24th May 2023 Phillips 66 are developing strategies to decarbonise the Humber Refinery and will require additional power to support these projects.

Presently Phillips 66 imports power at 33kV via a double circuit overhead line from VPI. The typical import is ~72MVA subject to normal operational variations, across two feeders from Super Grid Transformers 1 & 2 located adjacent to the National Grid substation at VPI. The maximum power import to the Humber Refinery is limited by the capacity of the double circuit overhead line which is load limited to 80MVA per circuit. The Humber Refinery is operated on a dual radial system, but in the event of a single feeder failure, the maximum import is limited to 80 MVA which is in line with current demand.

Potential Future Requirements

1. The Humber Zero FCC Carbon Capture project is the first in a set of premised carbon capture units at the Humber Refinery. This project has identified an estimated additional requirement of circa 23 MVA, which is expected to be required by December 2028.
2. The Electrification of the Humber Refinery project has identified an estimated additional requirement of circa 21MVA. This additional power requirement will be phased, based on individual project timing, and expected to begin from 2027.
3. Future phases of Humber Zero carbon capture are expected to have an additional requirement of up to 40 MVA, dates at this stage are unknown but will be post-2030 and this should be viewed as an upside case to potential requirements (1) and (2).

We would like to formally request that VPI investigate the most economical and technically reliable solution to provide the additional electrical requirements to the Humber Refinery. As discussed, we would be obliged if VPI draft a memorandum of understanding ("MOU") to cover the proposed technical solution and commercial offer for the provision of additional power.

As discussed, the parties agree in principle that the additional volumes of power should be provided under the terms of ESA, subject to amendment as maybe required. We would welcome a discussion to identify the most appropriate means for any capital recovery required on VPI costs incurred for new infrastructure.



Phillips 66 Limited
Humber Refinery
South Killingholme
North Lincolnshire
DN40 3DW
Tel 01469 555606

We look forward to hearing back from you in due course and receiving the first draft of the MOU, if you require any additional information in the interim to assist with the draft MOU, please do not hesitate to contact us.

Yours sincerely,

DocuSigned by:

Michelle N Carby

94F3B859631B434...

Michelle N Carby
Procurement Lead, Emerging Energy
Phillips 66 Limited

APPENDIX 6

Redactions applied 20.08.25 to this online version

Subject: FW: Updated ESA Discussions

From: [REDACTED]
Sent: 27 November 2024 10:40
To: [REDACTED]
Subject: RE: Updated ESA Discussions

Hi [REDACTED]

Thanks for your note – much appreciated. Understood re your positions. Let me circle back (one last time) internally and see if we can finalise the security terms, inclusive of the LC. The issue with the LC has not been the cost so much, rather the space it eats into our borrowing capacity. That said, I understand your concerns. Let me get back to you.

Keep well and speak soon.

Regards,
[REDACTED]

From: [REDACTED]
Sent: 27 November 2024 10:08
To: [REDACTED]
Subject: RE: Updated ESA Discussions

Hi [REDACTED]

I wanted to clarify a couple of Harbour related items with their team, before coming back to you. That call was also this yesterday, so your note was well timed.

In general, I am OK with retaining the VPI guarantor option and offering to lower the credit rating to the one we negotiated with Chrysaor. However, that would be subject to VPI agreeing on the previously discussed LC / bond language in the period up where the credit rating is not met. We cannot agree to retain the guarantor language (Chrysaor do not have) and offer to lower credit rating (per Chrysaor), while the main security issue remains outstanding (Chrysaor agreed the £200MM LC/bond alongside the BB rating).

While we appreciate the balance sheet concern, we understand these LC / bond costs can be passed through under the business model by both parties. It would be helpful if VPI could confirm the LC / bond language is acceptable - if so we can agree to lower the credit rating and close this out. Alternatively, we remain keen to hear an alternative (non-insurance) based security proposal, but would note that we have already gone up to / beyond what has already been accepted by the other party.

For P66, the ESA and the VPI HZ Lease are directly related and we cannot separate them. We have limited land and multiple use opportunities, so it is critical is ensuring that it's use is in alignment with Humber's future (the ESA).

Regards,
[REDACTED]

From: [REDACTED]
Sent: Tuesday, November 26, 2024 10:19 AM
To: [REDACTED]
Subject: [EXTERNAL]RE: Updated ESA Discussions

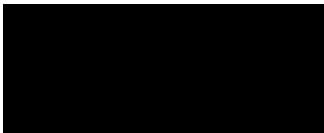
This Message Is From an External Sender

This message came from outside your organization.

Report Suspicious

Hi [REDACTED]

Chasing the below email to see if P66 has any response. I believe (but seek your confirmation) that the BB rating provided under the Harbour Lease, alongside the PCG provided under our Lease results in a largely acceptable outcome that we can paper. Our lenders have indicated that this is likely acceptable to them. Clearly, the biggest obstacle to the lease option becoming effective remains the outstanding ESA renegotiations. Separating the ESA renegotiations from the lease would result in us having a final, binding and bankable lease option. Our lenders have asked if we can remove this conditionality from the lease option (which of course works for us) but we assume the nexus between the lease and ESA remains a core requirement for P66. Just checking to confirm no movement on that front from you and that from your perspective we won't have an unconditional lease option until an amended ESA is agreed.



VPI
Website . LinkedIn

IMPORTANT: This email (including all attachments) is confidential and may be privileged. It may be read, copied and used only by the intended recipients, and must not be re-transmitted in any form without our consent. If you have received it in error, please contact us immediately by return email. Please then delete it and do not disclose its contents to any other person.

Security and reliability of email is not guaranteed, Communications should be verified from a mailed or faxed copy. All emails to anyone @VPI-I.com are communications to the firm and are not private or confidential to any named individual.

From: [REDACTED]
Sent: 22 October 2024 11:38
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Updated ESA Discussions

Hi [REDACTED]

I spoke with Harbour today and they confirmed that the contracting party to their/your lease DOES meet the BB rating (which is why they insisted on this rating) and would thus not need to provide a letter of credit if they continued to hold the lease in the name of the contracting party. For this reason, they are relaxed about having/not having parent guarantees and the need to post security for £200M. In the event they need to assign the lease to an unincorporated joint venture with BP (UJV) in the future to abide by their economic license (yet

to be determined) then they are confident that the economic license will require that the UJV will need a BB rating in due course (again, the reason they asked for the BB rating). There is a possibility (if the UJC is ultimately required) that there is a short period of time where the UJC will not need the BB rating in which event they will obtain a LC if they elect to structure the UJC initially as not having a BB rating. This LC would NOT be on the balance sheet of any of the members and would last only for that finite period. In short, they are relying on the contracting party (and eventually the UJV if so required) to have the BB rating.

To bring this back to our situation, we too are confident about our BB rating in the long term (with the added protection of a PCG which is applicable in our case and which we kindly ask remain as per our previous draft lease) but need to find a constructive way around the 4-5 year period (i.e. between FID and COD + 1 year) where this rating may be problematic. Unlike Harbour's UJV, any VPI LC will need to be on our balance sheet which has a massive impact on our borrowing capacity (i.e the cost of the LC is a secondary concern as this cost could be absorbed under the DPA – our restricted borrowing capacity cannot).

To be constructive, as a first step I propose we land agreement on the BB rating and the Acceptable Guarantor language as per our existing draft lease. After that, we can set some time over the next few weeks to try and find a suitable way to address the potential temporary non BB rating period. Does that work?

Thanks

From: [REDACTED]
Sent: 17 October 2024 16:46
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: Updated ESA Discussions

[REDACTED]

As you will remember, P66 proposed guarantor language as one of the options to resolve the security issue on the VPI land agreements. However, the feedback provided was that a PCG was not an option for VPI and therefore guarantor language was of no use.

In the discussions with Harbour (for Chrysaor Production UK Limited), they did not require guarantor language – therefore it is not within in their land agreement. Harbour were comfortable on the basis of the £200MM security or acceptable credit ratings only. This is consistent with what we have shared with you. As part of the Harbour land negotiations, the parties agreed on BB (S&P) as the minimum credit rating.

To support the resolution of the land agreements, we would be willing to offer VPI the same security terms which have been signed off with Chrysaor. These do not include guarantor language.

Regards,

[REDACTED]

From: [REDACTED]
Sent: Friday, October 11, 2024 1:30 PM
[REDACTED]
Subject: [EXTERNAL]RE: Updated ESA Discussions

This Message Is From an External Sender

This message came from outside your organization.

Report Suspicious

Thanks, [REDACTED] let me check with our legal and finance teams to ensure everyone here shares a common understanding of what is being proposed. My understanding was that P66 was offering a reduced credit rating (BBB to BB) and everything else essentially stayed the same in our lease. Based on your note below, it appears that what P66 is offering is a reduced credit rating to BB, in exchange for a more restricted form of security (i.e. removal of any PCG and a requirement that if the contracting party does not have a BB rating, it must get third party security posted and can't rely on the credit worthiness of other members in its group) – can you please confirm this is what P66 is offering?

A good weekend to all and we will aim to pick this up next week after we receive your confirmation.

Thanks



VPI
Website . LinkedIn

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From: [REDACTED]

Sent: 11 October 2024 05:31

[REDACTED] >

Subject: RE: Updated ESA Discussions

Hi [REDACTED]

I caught up with [REDACTED] this morning. The Harbour agreement, where they have given us permission to share the agreed language, allows for only the BB rating or the £200MM security.

There is no guarantee language, parent company or otherwise.

Please can VPI confirm their agreement on this wording.

Thanks,

[REDACTED]

From: [REDACTED]

Sent: Thursday, October 10, 2024 5:02 PM

To: [REDACTED]

Cc: [REDACTED]

Subject: [EXTERNAL]FW: Updated ESA Discussions

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Hi [REDACTED]

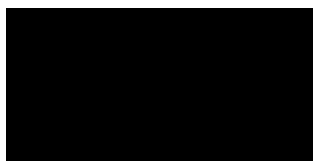
I've spoken with our legal team and they have confirmed that if the Harbour lease is the same as ours regarding security and the posting of guarantees, then the Harbour Group is in a position to provide an intra-group guarantee (without needing to post external security) because the publicly listed entity within the Harbour Group has a BB rating and meets the definition of Acceptable Security Provider. This means whilst the contracting Harbour party may not have a BB rating (something we will assume is true based on your previous notes), the Harbour group has, internally, this rating in at least one entity. It is almost certainly for this reason that Harbour demanded the BB rating in its lease.

As previously indicated, once our contracting party has the DPA and has been in operation for at least a full year, the BB rating will be satisfied by that contracting entity. The issue we have, is that until that time, there is a realistic possibility (based on potential power prices over the next few years) that no entity within the VPI Group will meet the BB rating. So in this key respect, VPI is not in the same situation as Harbour.

I've copied [REDACTED] so that they can discuss directly in the event any uncertainty remains regarding the difference between ourselves and Harbour in this regard.

Thanks

[REDACTED]



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From: [REDACTED]

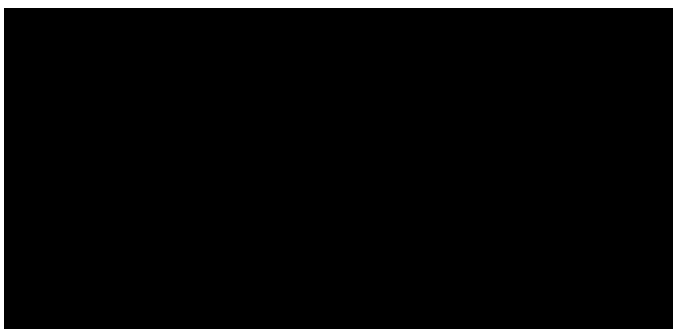
Sent: 09 October 2024 09:25

To: [REDACTED]

Subject: RE: Updated ESA Discussions

Your interpretation is correct.

An 'Acceptable Security Provider' can be any entity (either within or without the Tenant's corporate group) who has an 'Approved Credit Rating' and who is able to issue 'Acceptable Security' to the Landlord.



[REDACTED]

From: [REDACTED]
Sent: Tuesday, October 8, 2024 6:55:26 AM
To: [REDACTED]
Subject: Re: Updated ESA Discussions

Hi [REDACTED] I'm traveling today but will look at this when I'm back on Thursday. Thanks for looking in to this. My recollection is that if an entity doesn't have a BB rating, they need to get a guarantee from an entity that does - it doesn't specify whether it is from a third party or from an affiliate - if any affiliate within your group has this rating, then it can be provided free of charge as between that group. But let me check when I'm back. Thanks for looking into this.

Sent from [Outlook for iOS](#)

From: [REDACTED] >
Sent: Tuesday, October 8, 2024 6:09:09 AM
To: [REDACTED]
Subject: RE: Updated ESA Discussions

[REDACTED]

To briefly follow up on a point from last week on security; I have double checked this with [REDACTED] are in the same position as VPI on this. There is no PCG option and the expectation between the parties is that they will post the required security.

I wanted to highlight this prior to any official VPI feedback, as there will not be an interest in any insurance based options (for the reasons previously stated). The Chrysaor / P66 negotiated language was shared on the basis of goodwill, to help conclude this outstanding item on the VPI land agreements.

Thanks,

[REDACTED]

From: [REDACTED]
Sent: Friday, August 30, 2024 2:47 PM
To: [REDACTED]
Subject: [EXTERNAL]RE: Updated ESA Discussions

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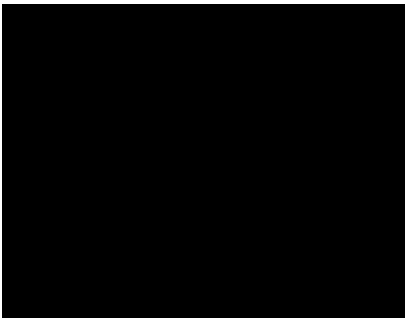
Hi [REDACTED]

Just wanted to get back to you with an update on the two issues outlined below:

1. BNG: next week we should be able to provide you with an updated memo from Arup on this issue, along with the results of a final market cost refresh we are undertaking with ESL Ecological Services (scope attached). Once you have reviewed these materials, we can discuss how best to progress to S106 sign-off; and
2. Lease: the move to a BB credit rating requirement does help. We are confident that once the CCS plant is built and DPA payments commence, VPI Immingham LLP will satisfy this requirement (in fact, since we are project financing HZ, this level must necessarily be met). We are, however, in the process of noodling our way through scenarios that might arise prior to the DPA payments commencing (i.e. during the construction period) and what various future power market conditions might mean to the VPI Group credit ratings prior to the CCS plant becoming operable. We will revert on this over the coming week(s).

We can discuss in greater detail next week.

Thanks, and a good weekend to you.



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From: [REDACTED]
Sent: Tuesday, August 20, 2024 7:58 AM
To: [REDACTED]
Subject: RE: Updated ESA Discussions

Hi [REDACTED]

No worries, we can catch-up next week.

We executed the Harbour land agreements last week and you have a copy of the agreed security language. It would be good to confirm that works for VPI to hopefully close out the Land Agreements.

On the S106, we'd be keen to hear how the proposal came in for the consultant to do the BNG refresh and report drafting. We were not aware that that much work had been done in 2022. I'd hope we can find a way to engage on the BNG refresh and report, so that it allows for a side letter to cover the S106 sign-off.

Regards,

[REDACTED]

From: [REDACTED]
Sent: Tuesday, August 20, 2024 11:37 AM
To: [REDACTED]
Subject: [EXTERNAL]Re: Updated ESA Discussions

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Sorry [REDACTED] - was off-site all morning and just received this note now. Tricky day to find a slot outside the original but really appreciate you offering the alternatives.

[REDACTED]

[REDACTED]



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From: [REDACTED]
Sent: Tuesday, August 20, 2024 3:51:31 AM
To: [REDACTED]
Subject: Re: Updated ESA Discussions

Hi [REDACTED]

If it still works, I'll be available at 9:30 today for a shorter meeting (or the 11am option still works).

Thanks,

[REDACTED]

Sent from [Outlook for iOS](#)

From: [REDACTED]
Sent: Monday, August 19, 2024 7:34:48 PM
To: [REDACTED]
Subject: RE: Updated ESA Discussions

Great - thanks

From: [REDACTED]
Sent: Monday, August 19, 2024 7:08 PM
To: [REDACTED]
Subject: [EXTERNAL]Re: Updated ESA Discussions

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Hi [REDACTED] - thanks for the notice. Will check to see if we can shift some slots to 11am. If not, we can pick things up on the next scheduled call.

[REDACTED]

[REDACTED]



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From: [REDACTED]

Sent: Monday, August 19, 2024 1:39:07 PM

To: [REDACTED]

Subject: Tentative: Updated ESA Discussions

When: 20 August 2024 04:00-05:00.

Where: Microsoft Teams Meeting

Hi [REDACTED]

I've had something come up late notice, so I doubt I can make it at 9am tomorrow.
Would 11am tomorrow work instead? Or 11am on Wednesday?

Regards,

[REDACTED]

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APPENDIX 7

Redactions applied 20.08.25 to this online version

[REDACTED]

From: [REDACTED]
Sent: 22 April 2025 11:25
To: [REDACTED]
Subject: FW: Insurance Proposal

From: [REDACTED]
Sent: 14 March 2024 05:21
To: [REDACTED]
Subject: Insurance Proposal

Hi [REDACTED]

We've had a discussion within the UK Management and Legal team to go over the various contracts and key items. While [REDACTED] was not there, we did cover the LC vs Insurance concept. There is no P66 support for an insurance backed coverage of the liability (even partial) for the reasons outlined in my earlier note. There are also precedents that VPI has recently requested liability caps for other items and where we have agreed £200MM met via LCs.

We will need to stick with the LC basis. PCG also remains an option, but I appreciate that this links to assignment.

Thanks,

[REDACTED]

From: [REDACTED]
Sent: Tuesday, March 12, 2024 7:29 PM
To: [REDACTED]
Subject: [EXTERNAL]RE: ESA Negotiations

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Thanks [REDACTED] appreciate you asking.

Have a good night.

From: [REDACTED]
Sent: 12 March 2024 19:28
To: [REDACTED]
Subject: Re: ESA Negotiations

Hi [REDACTED]

We no longer have a UK based insurance team. [REDACTED] is from the UK but based in Houston so is our "local" expert for all Europe/UK insurance work.

We will check but I don't think there will be anyone to step in.

Thanks,

Sent from [Outlook for iOS](#)

From: [REDACTED]
Sent: Tuesday, March 12, 2024 7:24:44 PM
To: [REDACTED]
Subject: [EXTERNAL]RE: ESA Negotiations

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Hi [REDACTED]

Is there anyone else we can speak with in your insurance department in [REDACTED] absence? We are trying hard to resolve as many matters as possible prior to end of March.

Thanks
[REDACTED]

From: [REDACTED]
Sent: 12 March 2024 17:45
To: [REDACTED]
Cc: [REDACTED]
[REDACTED]
Subject: RE: ESA Negotiations

Hi [REDACTED]

I added [REDACTED] to the distribution yesterday, within my response. [REDACTED] worked with us to assess the insurance proposal.

In reviewing her calendar, [REDACTED] is on vacation this week and next.

I will propose some dates, but it will need to be w/c March 25th.

Thanks,
[REDACTED]

From: [REDACTED]
Sent: Tuesday, March 12, 2024 4:31 PM
To: [REDACTED]
Cc: [REDACTED]
[REDACTED]
Subject: [EXTERNAL]RE: ESA Negotiations

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Hi [REDACTED]

Thanks for your reply.

It would be useful to set up a call with your insurance team to have a better understanding of the exposures you want us to cover by either insurance or an LC. Would it be possible to organise this on your side somewhere end of this week/beginning of next? We can ask our broker to join as well, they have experience with CCS and the liabilities arising out of such projects.

Best regards

[REDACTED]

[REDACTED]

From: [REDACTED]

Sent: 11 March 2024 12:15

To: [REDACTED]

Subject: RE: ESA Negotiations

Hi [REDACTED]

Thank you for the details on the insurance proposal.

As you note, the lease considers the risk of a catastrophic failure, where we have accepted VPI's proposal to cap the liability (agreed at £200MM). It is worth noting that the insurance provision (19.3) was agreed prior to the recent proposal from the VPI team that insurance might be used to address this liability (i.e. 19.3 was not drafted to address the capped liability).

The insurance approach is helpful and we feel that it can be part of the solution. However, we can't accept it as the sole basis for the liability cap, given the range of T&Cs which will apply, and which will vary by company and by policy. Protection under an LC or PCG is far clearer, with less risk of non-payment, so insurance is not an effective 1-for-1 substitute.

We would like to consider whether there is an option to blend an LC and insurance; giving P66 more surety and also reducing VPI's LC cost. For example, 50% via an LC and 50% via increased insurance cover. Please note that we have not reviewed this with P66 management, but wanted to check with you and [REDACTED] first to see if it could be an option.

Regards,

[REDACTED]

From: [REDACTED]
Sent: Friday, March 1, 2024 8:28 AM
To: [REDACTED]
Cc: [REDACTED]
Subject: [EXTERNAL]RE: ESA Negotiations

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Dear [REDACTED]

Please let me introduce myself first; my name is [REDACTED] and I am [REDACTED] of Vitol, we assist VPI on insurance matters together with [REDACTED]

We, alongside [REDACTED], have looked into the attached Draft CCS Lease contract and from a risk management and insurance point of view I can summarise our view on insurance obligations arising from schedule 2 as follows;

- Under clause 15.9 the Tenant has to indemnify the Landlord in respect of liability arising from the Tenants acts or omissions up to a limit of GBP200m
- 15.1 and others make clear that this includes liability arising from third parties or Competent Authorities etc
- Whilst this limit exists it is not clear that any scenario could give rise to a loss that comes anywhere near this
- 15.9 sets a limit of liability but it does not address Insurance obligations, which are addressed under clause 19.3
- 19.3 requires the Tenant to insure "against third party and public liability with a limit of liability as is customary for a Reasonable and Prudent Operator"
- This only requires third party/ public liability insurance which is provided for under VPI's current liability programme up to GBP100m, which in our and [REDACTED] opinion meets what is customary for a Reasonable and Prudent Operator as defined under the lease.
- Phillips 66 is already an insured party on our Public, Products, employers & Pollution Liability policy as evidenced by the attached insurance certificate
- Notwithstanding the fact we believe that our current insurance arrangement provides sufficient coverage for all likely events arising under the CCS Lease, we are willing to consider raising our liability programme up to GBP200m if Phillips 66 is of the view that this is a firm requirement..

Happy to have a call with your insurance team to discuss further and hear their views on this matter. Please let me know if you have any questions in the meantime.

Best regards

[REDACTED]

[REDACTED]

From: [REDACTED]
Sent: 28 February 2024 15:35
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: ESA Negotiations

Hi [REDACTED]

We have been working the insurance issue and our hope it to revert to you this week with an insurance position that we can then discuss with your insurance team (copying [REDACTED] who is leading this work).

As for the utilities work, appreciate that we are working on the technical aspects and that pricing/redundancy issues need to be resolved but what we are looking for on Tuesday in an indication of the category of requests sought. My reading of your points below is that your concern is over the details regarding the provision of the additional power etc, which we understand need working out. But let me know if I'm misinterpreting your note.

Thanks

From: [REDACTED]
Sent: 28 February 2024 14:28
To: [REDACTED]
Cc: [REDACTED]
Subject: RE: ESA Negotiations

Hi [REDACTED]

As you will appreciate from the recent VPI/P66 utility meetings there is still some work to be done on this. We are meeting internally in advance to discuss how to expedite, and the right people will be in the room next week to discuss, but an exhaustive list by next Tuesday is not possible.

We remain keen to see the insurance proposal for the Lease, so that we can check that that approach will be viable.

Thanks,

[REDACTED]

From: [REDACTED]
Sent: Wednesday, February 28, 2024 1:57 PM
To: [REDACTED]
Cc: [REDACTED]
Subject: [EXTERNAL]ESA Negotiations

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Hi [REDACTED]

In order to make the most of our ESA negotiation discussions (commencing next Tuesday) it would be useful if Phillips66 could confirm on Tuesday the full extent of its requested amendments to the ESA. You have previously indicated the request for additional power/steam in accordance with Phase 1 and Phase 2 of your decarbonisation plans (without requiring any commitments in respect of your proposed Phase 3). If there are any additional items requested, it would be good to hear those on Tuesday so that we can achieve the target agreement date of 26 March 2024.

Many thanks

[REDACTED]

To verify that the signature to this message is valid and to [REDACTED] authentication stamp. Its function is to assist you to ensure that the email is indeed generated by [REDACTED]

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APPENDIX 8

An introduction to VPI

Strictly Confidential, not for circulation

What we do

The system solver for problems that must be resolved through the energy transition

Build on our trading and engineering expertise, and ability to act fast

Technology agnostic but savvy; accomplished in complex thermal

Attuned to market dynamic evolution, with services offering

International, but focused on few key markets

Strategic intents

Where we are focusing our efforts

1 Building out and enhancing our Thermal

Geographic expansion of thermal footprint to ensure reliable, dispatchable energy



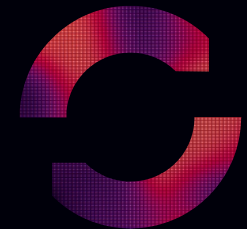
2 Adapting our sites for low carbon future

Transition of sites into abated thermal
Participation in CCUS

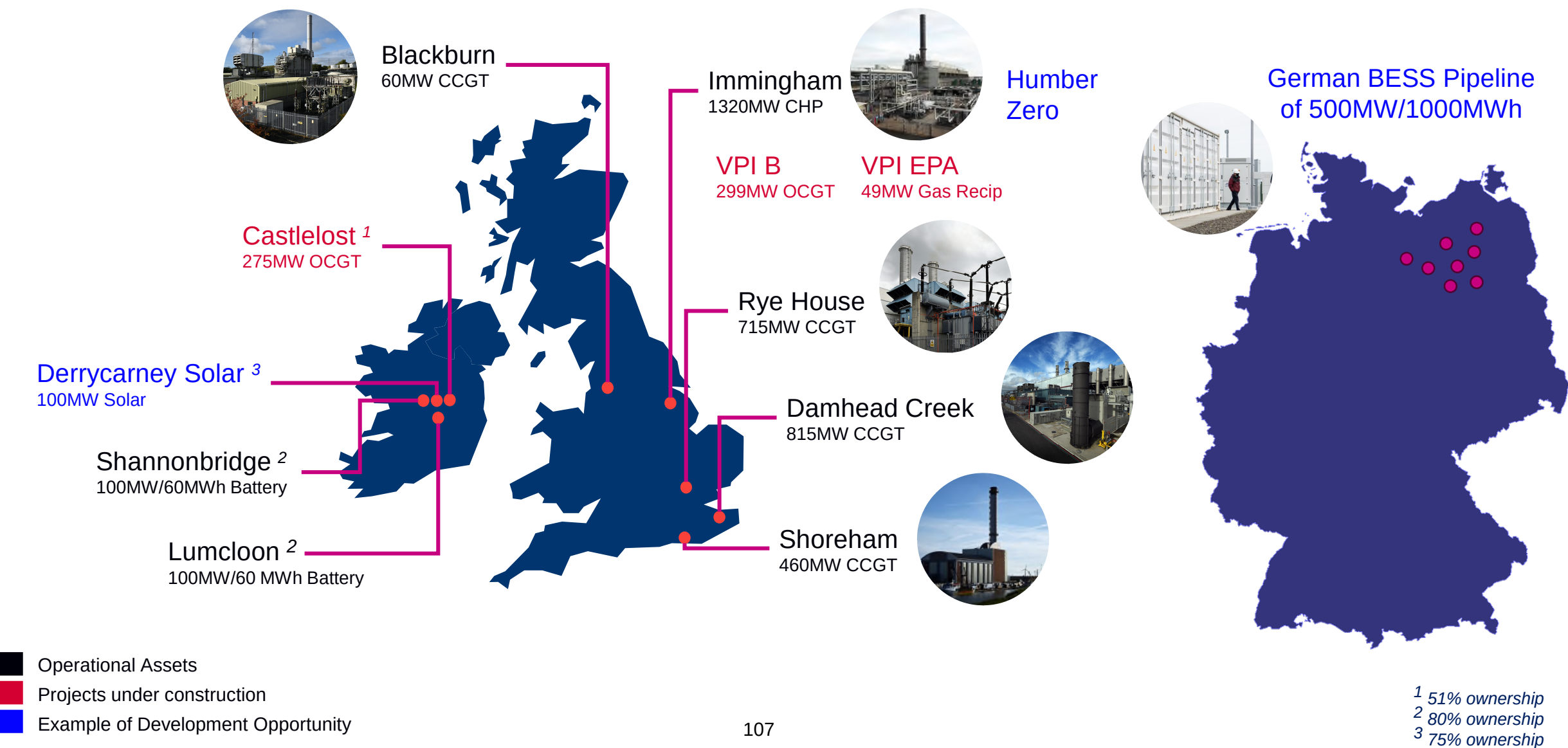


3 Zero carbon flexibility and services

Zero Carbon asset acquisition / management
Development of broader service portfolio



Our growing portfolio of assets



Significant experience in project delivery

£380m invested in three projects delivered or under construction



Energy Park A

- **Capacity** - 50MW Gas reciprocating peaking plant
- **Location** - Immingham, North Lincolnshire
- **Equipment Supply** - Jenbacher engines
- **Commercial Operation Date** – Oct 2024



Castlelost

- **Capacity** - 275MW OCGT peaking plant
- **Location** - Rochfortbridge, Co. Westmeath, Ireland
- **Equipment Supply** – Siemens Energy, SGT-800
- **Commercial Operation Date** – July 2025



VPI B

- **Capacity** - 299MW OCGT peaking plant
- **Location** – Immingham, North Lincolnshire
- **Equipment Supply** – Siemens Energy, F-Class
- **Commercial Operation Date** – July 2026



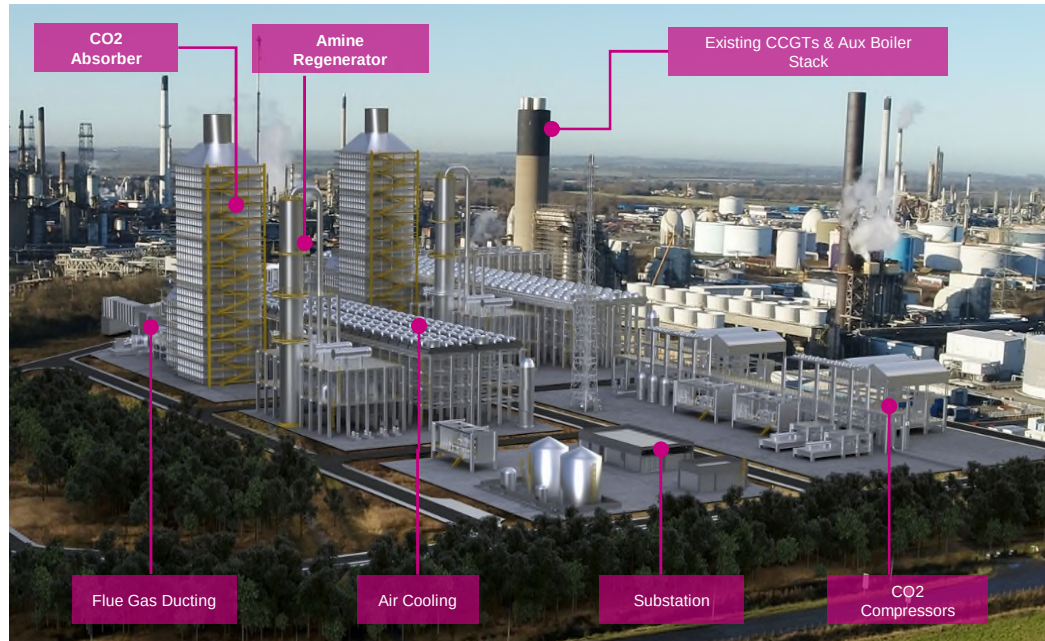
Value from capacity market and flexibility – option to respond to price signals

Built strong project development and delivery capability

- Strong Development and Delivery team
- Project Management focused on eight key governance areas;
 - HSE, Cost Management, Programme Management, Stakeholder engagement, detailed interface engineering, Quality assurance, successfully commissioning & performance testing, robust handover to O&M teams
- Strong relationships with the supply chain and network stakeholders such as National Grid, EirGrid, GNI
- Able to simultaneously deliver projects which have varying technologies across different geographic locations

Advanced development of Humber Zero

Pioneering the retrofit of CCS power plants and paving the way for the abatement of existing power and industry at scale, via the post combustion capture of carbon from GT1 and GT2 at Immingham



VPI Humber Zero: By the Numbers

- First anchor emitter into Viking CCS and the only project that can unlock Viking (and decarbonization of the Humber) prior to 2034
- Capture Capacity: 3.3mtpa of CO₂ (nearly 20% of UK national target by 2030)
- Capex: £1.5B (BP newbuild estimated at £4B for similar capacity)
- Peak construction jobs: 1,500

Project in Development

Completed

- ✓ Pre-FEED
- ✓ Front End Engineering Design (FEED)
- ✓ Selection of Shell carbon capture technology
- ✓ FEED verification
- ✓ Permit variation application duly made
- ✓ Planning application conditional approval received
- ✓ EPC Contractor selection: Worley

In progress / next steps

- EPC Development / Execution Readiness
- Environmental Permit Completion
- DESNZ Track 2 Anchor Emitter Selection
- Business Model Agreements
- Financing

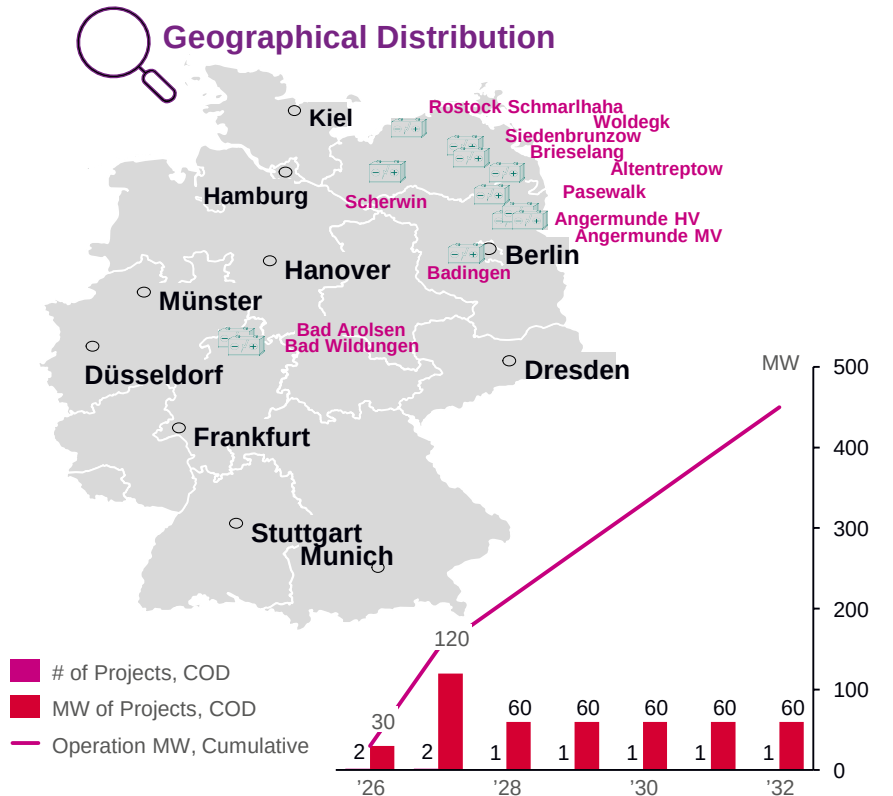
Battery Storage assets and pipeline

Following the successful acquisition of Lumcloon and Shannonbridge ...



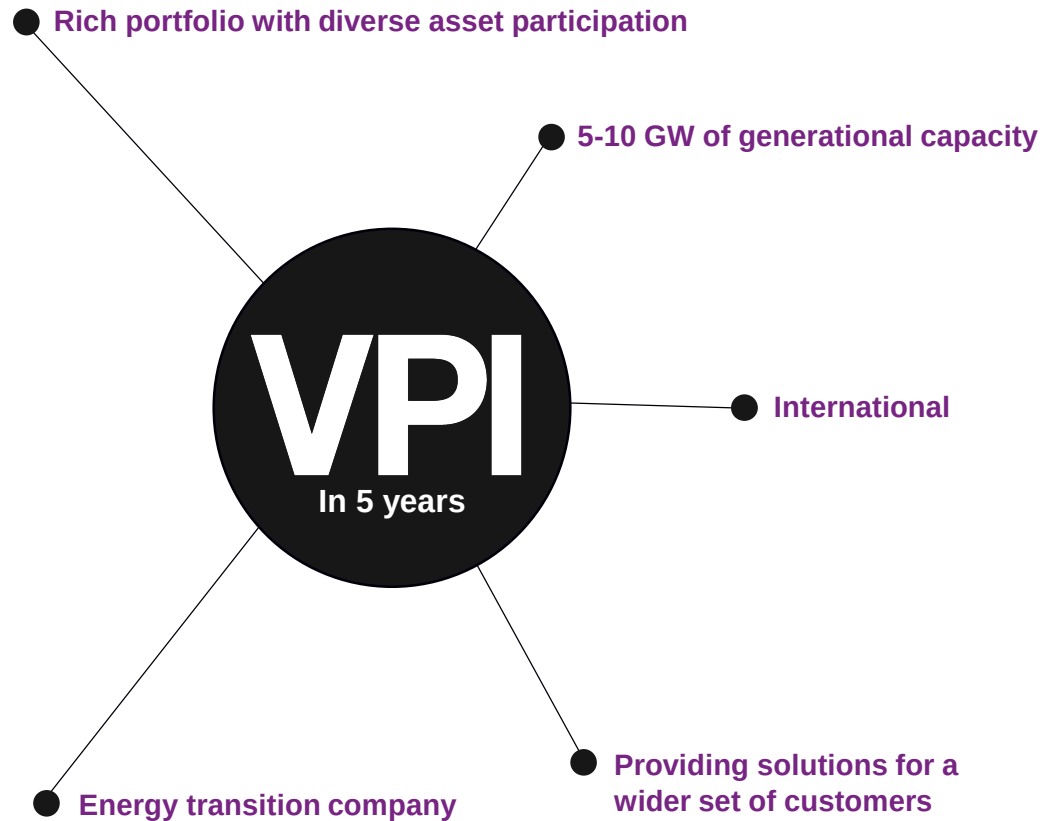
- In June 2023, VPI acquired two battery energy storage systems (BESS) with a capacity of 100MW each and 40 minutes dispatch timeline
- Both sites were developed jointly by Lumcloon Energy, Hanwha Energy Corporation and LS Electric and commissioned in mid-2021
- For both battery assets, DS3 (ancillary service) contracts are in place ensuring grid stability
- Hourly DS3 payments reward the assets most when network conditions are most challenging driven by high non-synchronous penetration (% of wind and solar relative to total demand)
- Merchant opportunity (intraday arbitrage) will increase in future years

... We have acquired a battery storage development platform in Germany



- Increasing solar penetration and transmission demand both provide a strong backbone for cycling into the wholesale market
- In addition to wholesale trading, BESS can bid into day ahead FCR and aFRR auctions, which provide grid stability
- With deep liquidity in the intraday market, German BESS will benefit from multiple re-optimisation opportunities

A platform for power investment and growth through the energy transition



- Growth through expansion in our portfolio of assets and new services
- Further strengthening the platform
 - o Healthy opportunity pipeline and track record of delivery
 - o Clear decarbonization story and growth through energy transition
 - o High quality underpinned by strong team, agile culture, and robust processes
 - o Robust financial performance through diversification of EBITDA sources (contracted / merchant mix, country mix, technology mix)

VPI

Power Solvers

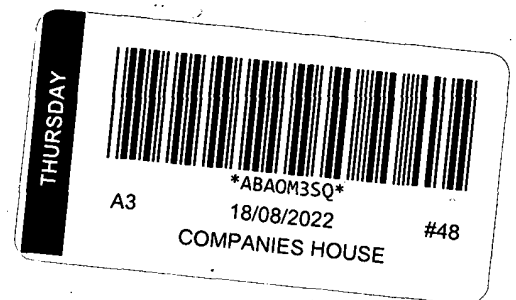
APPENDIX 9

REGISTERED NUMBER: 08484743 (England and Wales)

Annual report and consolidated financial statements

for the year ended 31 December 2021

VPI Holding Limited



VPI Holding Limited

Contents of the consolidated financial statements For the year ended 31 December 2021

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VPI Holding Limited

Company information
For the year ended 31 December 2021

Directors:

R D Hardy
J Ahmed
M Longstreth

Company Secretary:

E J Essex

Registered office:

4th Floor, Nova South
160 Victoria Street
London
SW1E 5LB

Registered number:

08484743 (England and Wales)

Auditor:

Deloitte LLP
Statutory Auditor
1 New Street Square
London
United Kingdom
EC4A 3HQ

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021

The Directors present their strategic report for VPI Holding Limited ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2021.

Cautionary statement

These financial statements contain certain forward-looking statements with respect to the financial condition and business of the Group. 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 Group 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 activities of the Group comprise of the ownership and operation of a portfolio of generation assets.

In the current and previous financial year the Group owned a combined heat and power plant at Immingham, North Lincolnshire ("the CHP Plant"), which generates and supplies steam to the adjacent Humber and Lindsey Oil Refineries and electricity to the Humber Oil Refinery and the National Grid.

During the current period the Group acquired 100% of the ordinary share capital of Drax Generation Enterprise Limited from Drax Smart Generation Limited. Drax Generation Enterprise Limited was renamed VPI Power Limited (VPIP) on 2 February 2021. VPIP owns and operates a portfolio of Combined Cycle Gas Turbine power stations ('the CCGT Plants') at Damhead Creek (805MW), Rye House (715MW) and Shoreham (420MW) in the south of England and Blackburn Mill (60MW) in the north of England this acquisition significantly increased the operational portfolio capacity from 1.2GW to 3.2GW, see note 3 for further details.

The Group also has a number of consented development projects in the energy sector, including a 50MW peaking plant and a 299MW open cycle gas turbine. The Group is also a partner in Humber Zero, a large scale decarbonisation project to remove up to 8-million tonnes of CO₂ per annum in the Humber region by 2030. In March 2021 the project secured £25m of funding, £12.5 million of that being government funding from Innovate UK. This funding has allowed the project to enter the Front-End Engineering Design ('FEED') stage which is expected to be completed by summer 2023.

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

During the financial year, the Group completed a refinancing exercise replacing a £150m bridging facility, a £34.6m bank facility and established an increased longer-term debt facility, see note 13 for further details. Additionally in December 2021 the Group entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek, see note 19 for further details.

The Group profit for the year was £15.5m (2020: £7.4m) the increase on prior year was primarily due to additional revenue from the newly acquired assets for 11 months of the year, for which the profit totalled £78.1m. The underlying cash flow performance of the business was good and the business intends to continue its investment in the operating assets. During the year, dividends totalling £160.0m were paid (2020: £nil).

The Group's Consolidated Statement of Financial Position, on page 21, shows the Group has total assets of £1,246.7m (2020: £677.2m). The increase is primarily due to the additional assets acquired during the year and increased current assets.

The business retains a positive cash position in order to participate in both UK Emissions Trading Scheme primary and secondary auctions.

The Company profit for the year was £198.8m (2020: loss £3.3m). In the main this was due to income from shares in group undertakings of £205.0m.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021 (continued)

Key performance indicators

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

	2021 £'m	2020 £'m	Change %
Underlying Revenue	2,115.6	915.1	131.2
Underlying Gross profit	325.6	119.4	172.7
Underlying EBITDA	249.5	90.1	176.9
Underlying gross profit as % of fixed assets	55%	28%	27

EBITDA – 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Group. The Group also monitors a number of health & safety and environmental KPIs alongside the financial performance indicators.

All KPIs are stated prior to movements in derivative financial instruments, which is referred to as 'underlying' performance as the business measures the performance without reference to the derivative movements. The movements on derivatives is included to arrive at the statutory reported results shown in the income statement.

The Group 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 Group's business.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are those that impact the continuing business and profitability of the CHP and CCGT Plants and their related contracts. The CHP and CCGT Plants 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 Group'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 Group's activities, the health and safety of all our employees, contractors and the public is of paramount importance. The Group 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 Group 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 Group 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 Group. The Group 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 CHP and CCGT Plants may result in the loss of generation through a plant outage or reduced output capacity. This risk is mitigated through planned maintenance schedules and regular monitoring activities. The Group maintains third party insurance cover to mitigate against significant operating risks.

Foreign currency risk

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

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021 (continued)

Interest rate risk

The Group is exposed to interest rate risk resulting from the Group's loan and banking arrangements. The interest charged on Group loans is linked to LIBOR and therefore is exposed to the movements in the UK LIBOR rates. The Group uses interest rate swaps to reduce its exposure to adverse fluctuations in UK LIBOR interest rates, and from September 2021 onwards SONIA interest rates in regards to bank borrowings.

Climate change

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

Brexit

In 2021, the Government implemented a standalone UK Emissions Trading Scheme (ETS). The Group had sufficient measures in place to mitigate perceived risks around leaving the EUETS.

Covid-19

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

Workforce

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

- adopting enhanced cleaning protocols particularly in high traffic areas;
- making every possible effort to enable working from home;
- segregating site staff as much as possible and implementing the governments social distancing guidelines. Where the social distancing guidelines couldn't be followed in full the Group 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 Group 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 Group 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 both 2020 and 2021, the Group was able to mitigate the impact of Covid-19 on its operations and results. As the pandemic continues into 2022, the Group is monitoring on a daily basis Government guidance and modifying its approach to protect the business, workforce and supply chain as appropriate.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021 (continued)

Streamlined Energy and Carbon Reporting

The CHP Plant comprises of two Large Combustion Plants as defined by articles 28 and 29 of the Industrial Emissions Directive and has a total output of 1,218 MW. The Group has an Environmental Management System externally certified to ISO 14001, 2015. All power consumed in 2021 was generated on site with no additional energy imported from National Grid. The total amount of natural gas used for generation activities was 48,706.31 TJ LHV (2020: 72,455.90 TJ). The CHP Plant is efficient gas fired and therefore emits CO₂ from the generation process. The CO₂ emitted for 2021, as verified under the EU Emissions Trading Scheme, was 2,742,865 tCO₂(e) (2020: 3,237,057 tCO₂(e)), this figure includes emissions from transport used on site.

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 2021 was generated on site with 42,553.51 MW additional energy imported from National Grid. The total amount of natural gas used for generation activities was 30,295.19 TJ LHV. The CCGT power stations are efficient gas fired and therefore emits CO₂ from the generation process. The CO₂ emitted for 2021, as verified under the UK Emissions Trading Scheme, was 1,701,128 t CO₂(e), this figure includes emissions from transport used on site.

Post Balance Sheet Events

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

Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern. The Group's underlying cash flow is strong with net cash inflows of £122.9m and £42.5m pre dividend payments in the current and prior financial year respectively. The Group has also seen profitable results in both the current and prior financial year of £15.5m and £7.4m. After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2023, and considering the principal risks and uncertainties on pages 3 and 4, including applying appropriate downside sensitivities with a focus on commodity prices, the Directors are confident that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In particular the Directors have considered the circumstances surrounding the Covid-19 pandemic and do not deem the situation to cause significant disruption to operations or the profitability of the Company that would impact on this conclusion. The business is viewed as critical infrastructure and so recent lockdown actions have not materially impacted on the business and its ability to operate as well as the capacity of the Group to manage associated sensitivities to its forecast profitability and cash generation within its available financing and covenants. The Group has access to an undrawn working capital facility of £30.0m should management deem it necessary (note 13).

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 Group have a duty to act as they consider most likely to promote the success of the Group 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 Group operates, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly between members of the Group.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021 (continued)

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 Group's operations. The Group's forecasts are prepared with input from leading energy sector market consultants and are carefully considered by the Group'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 Group's capital structure and capital allocation policy and its resilience to existing and emerging risks as disclosed throughout the Director's and Strategic Reports.

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

Employee interest and engagement

The Group'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 Group at all times and an open door for new ideas and ways of working. Employees are further updated on Group matters through internal communications, newsletters and face to face meetings.

The Group'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 Group carries out rigorous, risk based Know Your Customer (KYC) procedures on its partners and counterparts, and monitor these on an ongoing basis, as appropriate.

The Group is a leading partner in a large scale decarbonisation program, Humber Zero working with its neighbouring industries and customers, to create a carbon neutral industrial hub in the Humber region.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2021 (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 Group has in place robust compliance procedures which are focused on ensuring that all business conducted by the Group complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws.

The Group 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 Group demands a 'safety first' culture. As a power plant, safety is at the core of the business and great care is taken to ensure the safety of everyone on site, and to protect the surrounding environment. The Directors appreciate the risks involved in the energy sector and take their responsibilities extremely seriously. The Group has strong HSE policies in place and complies with international HSE standards and relevant legislation. The Group 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:



R D Hardy – Director and Chairman

Date: 29 July 2022

VPI Holding Limited

Report of the Directors

For the year ended 31 December 2021

The Directors present their Annual Report with the audited financial statements of the Company and the Group for the year ended 31 December 2021.

Dividends

The directors proposed and paid dividends for the year ended 31 December 2021 of £160.0m during the year (2020: £nil). There were no dividends declared after the year end.

Directors

The directors shown below have held office since 1 January 2021 to the date of this report.

J Ahmed
R D Hardy
M Longstreth

There were no changes in directors holding office during the year.

Principal activities and future developments

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

Employees

The Group 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 Group 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 Group 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 Group's business relationships is outlined in the Directors' duty to report the success of the company section of the Strategic Report.

Going concern

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

Financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which such a derivative contract is entered into and are subsequently re-assessed at their fair value at each reporting period end.

Derivative financial instruments are used by the Group to manage exposure to the principal risks arising as set out within the Strategic Report on page 3. This section of the Strategic report also considers the Group's exposure to other types of risk and how it seeks to mitigate these risks.

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.

VPI Holding Limited

Report of the Directors

For the year ended 31 December 2021 (continued)

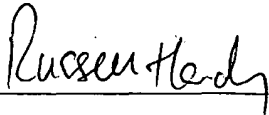
Disclosure of information to auditor

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

Auditor

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

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



R D Hardy – Director and Chairman

Date: 29 July 2022

VPI Holding Limited

Statement of Directors' responsibilities For the year ended 31 December 2021

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 group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The directors have chosen to prepare the parent company 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 the parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF VPI HOLDINGS LIMITED

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of VPI Holdings Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company balance sheets;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law, United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent 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 as applied to listed entities, 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.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Revenue recognition in relation to the cut off assertion
 - Accounting for the acquisition of VPI Power Limited
-

Materiality	The materiality that we used for the group financial statements was £7.3m which was determined on the basis of 5% of the three year average group underlying EBITDA.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	The group has purchased a new entity in the year, VPI Power Limited, whose business is similar to the current trading company, VPI Immingham LLP. As a result, there are no significant changes in approach in the current year, other than the audit of the acquisition of VPI Power Limited for which a new key audit matter has been identified

4. 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.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the impact of the material acquisition and the financing arrangements put in place to facilitate the transaction;
- assessing the assumptions used in the Group's Business Plan, including performing sensitivity analysis in relation to assumptions for future commodity prices;
- assessing the impact of Covid-19 on the Group; and
- reviewing the amount of headroom in the forecasts.

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 group's and parent 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.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

5.1. Revenue recognition in relation to the cut off assertion

Key audit matter description	Revenue for the Group is stated in the consolidated income statement at £2,079.7m as at 31 December 2021 (2020: £739.0m). Further details are included within note 3 of the financial statements. Revenues associated with sales of power, steam and water are recognised when title passes to the customer. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service. Material invoices are raised around year end and if these were recorded in the incorrect accounting period that would lead to a material misstatement. Therefore there is a cut-off risk in relation to sales being recognised within the incorrect period around the reporting date. Further details regarding the group's revenue recognition policy can be found within note 2 to the financial statements on page [27].
How the scope of our audit responded to the key audit matter	To assess the appropriateness of revenue recognition in relation to cut off, we evaluated and sample tested revenue transactions one month either side of the reporting date and assessed whether they had been included in the correct accounting period. We tested the relevant controls related to revenue cut-off and obtained an understanding of the revenue process at financial year end.
Key observations	Based on the work performed we are satisfied that the revenue transactions have been recorded in the correct accounting periods.

5.2. Accounting for the acquisition of VPI Power Limited

Key audit matter description	On 31 January 2021, the Group acquired VPI Power Limited (formerly Drax Generation Enterprise Limited) for £188m. In accordance with IFRS 3 'Business Combinations' management has recognised the identified assets (including property, plant and equipment, and intangible assets) and liabilities at their acquisition date fair values. Management engaged third party experts to perform the PPA exercise. Further details are disclosed within note X. We have identified a key audit matter in relation to the assumptions applied in respect of the Purchase Price Allocation (PPA) exercise, identifying in particular judgement related to the fair value of the property, plant and equipment acquired.
How the scope of our audit responded to the key audit matter	We tested the acquisition balance sheet and initial fair value adjustments of the acquired business including assessing the identification and valuation of property plant and equipment, the recognition of intangible assets and the fair value of liabilities. We evaluate the competence, capabilities and objectivity of the third party experts engaged by management to perform the PPA exercise. We evaluated the valuation work undertaken to support the acquisition and whether contradictory evidence to the valuations adopted

existed. We also involved our internal valuation specialists in assessing the third party reports and identify areas for particular focus.

Key observations	Based on the work performed we are satisfied that the acquired assets and liabilities have been appropriately accounted for in accordance with IFRS 3 'Business Combinations'.
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6. Our application of materiality

6.1. Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£7.3m (2020: £4.5m)	£2.5m (2020: £3.0m)
Basis for determining materiality	Approximately 5% of the three year average underlying EBITDA (2020: 5% of Underlying EBITDA) Underlying EBITDA is defined as 'Earnings before interest, taxation, depreciation and amortisation' before unrealised movements on derivative financial instruments.	3% of net assets (2020: 3% of net assets) capped at 50% (2020: 49%) of the performance materiality identified for the group.
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements, including management. Underlying EBITDA has been selected as an appropriate measure as this is the key measure on which the performance of the business is assessed and the attention of the users of the entity's financial statements tend to be focused. Reflecting increased volatility and uncertainty in global and UK energy markets we have utilised a three year average of underlying EBITDA as the basis for determining materiality in the current year	When determining materiality we note the primary activity of this company is to hold investments in other group companies and fund other entities through intercompany loans. Net assets has therefore been determined as an appropriate benchmark for determining materiality.

6.2. Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2020: 70%) of group materiality	70% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	In determining performance materiality, we considered the following factors: a) The low level of historical uncorrected misstatements within the consolidated financial statements; b) Our assessment of the control environment.	

6.3. Error reporting threshold

We agreed with the directors that we would report to them all audit differences in excess of £0.4m (2020: £0.2m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1. Identification and scoping of components

The group parent company is VPI Holdings Ltd which holds an investment in the other group companies. The main trading companies are VPI Immingham LLP and VPI Power Limited. There are other subsidiary companies which are holding companies and developing plants.

All components are in scope and are audited at the lower of their statutory and component materiality ranging from £4.9m to £0.05m (2020: £3m to £2m). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team

7.2. Our consideration of the control environment

We took no controls reliance across our audit. However with the involvement of our IT specialists we obtained an understanding and assessed the relevant IT controls.

7.3. Our consideration of climate-related risks

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the Group, as explained in the group strategic report on page 4. We have:

- assessed how the Directors considered climate change in their assessment of the impact on the financial statements, including the going concern assumption, based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- assessed how the impact of climate change has been considered within individual financial statement lines which are supported by forward looking forecasts and estimates; and

- evaluated the appropriateness of disclosures included in the financial statements and have read the climate risk disclosures included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit

8. 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.

9. 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 group's and the parent 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 group or the parent company or to cease operations, or have no realistic alternative but to do so.

10. 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.

11. 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.

11.1. Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit, and the audit committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team including relevant internal specialists, including tax, IT, valuations and financial instruments regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following area: revenue recognition in relation to the cut off assertion. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulations established by regulators in the key markets in which the Group operates, including the Office of Gas and Electricity Markets (Ofgem).

11.2. Audit response to risks identified

As a result of performing the above, we identified revenue recognition in relation to cut off as a key audit matter related to the potential risk of fraud. The key audit matters section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter. In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the directors and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. 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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

13. Matters on which we are required to report by exception

13.1. Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2. Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

14. Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Marianne Milnes

Marianne Milnes, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
29 July 2022

VPI Holding Limited

Consolidated income statement For the year ended 31 December 2021

	Notes	Year ended 31 December 2021			Year ended 31 December 2020		
		Underlying Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m	Underlying Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m
Revenue	4	2,115.6	(35.9)	2,079.7	915.1	(176.1)	739.0
Cost of sales		(1,790.0)	(99.4)	(1,889.4)	(795.7)	153.9	(641.8)
Gross profit/(loss)		325.6	(135.3)	190.3	119.4	(22.2)	97.2
Operating and administrative expenses		(76.1)	(1.0)	(77.1)	(29.3)	(1.8)	(31.1)
EBITDA**		249.5	(136.3)	113.2	90.1	(24.0)	66.1
Depreciation		(38.5)	-	(38.5)	(28.8)	-	(28.8)
Profit on sale and leaseback	19	18.6	-	18.6	-	-	-
Acquisition related costs	3	(4.2)	-	(4.2)	-	-	-
Operating profit/(loss)	7	225.4	(136.3)	89.1	61.3	(24.0)	37.3
Interest receivable and similar income	6	0.3	-	0.3	0.2	-	0.2
Interest payable and similar expenses	6	(21.6)	(1.0)	(22.6)	(17.5)	(0.3)	(17.8)
Profit/(loss) before tax		204.1	(137.3)	66.8	44.0	(24.3)	19.7
Tax	8	(51.3)	-	(51.3)	(12.3)	-	(12.3)
Profit/(loss) for the financial year		152.8	(137.3)	15.5	31.7	(24.3)	7.4

All amounts relate to continuing operations in both current and preceding years.

The Group has no other gains, losses or sources of other comprehensive income other than those presented above. As such, no statement of other comprehensive income has been presented.

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

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

VPI Holding Limited (Registered number: 08484743)

Consolidated statement of financial position
As at 31 December 2021

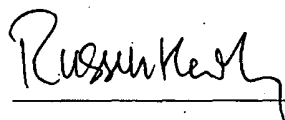
	Notes	2021 £'m	2020 £'m
Assets			
Non-current assets			
Property, plant and equipment	11	588.5	420.7
Derivative financial instruments	13	90.2	6.1
		<u>678.7</u>	<u>426.8</u>
Current assets			
Inventories	14	213.8	8.3
Trade and other receivables	15	248.5	62.2
Corporation tax		-	3.6
Derivative financial instruments	13	47.2	80.7
Cash and cash equivalents		58.5	95.6
		<u>568.0</u>	<u>250.4</u>
Total assets		<u>1,246.7</u>	<u>677.2</u>
Equity			
Shareholders' equity			
Called up share capital			
Share premium		241.6	241.6
Retained earnings		(301.2)	(156.7)
Total equity		<u>(59.6)</u>	<u>84.9</u>
Liabilities			
Non-current liabilities			
Bank and other borrowings	18	422.6	203.9
Derivative financial instruments	13	60.7	15.5
Deferred tax	21	120.7	89.4
Lease liabilities	19	77.1	13.3
Provisions	20	27.9	14.9
		<u>709.0</u>	<u>337.0</u>

VPI Holding Limited (Registered number: 08484743)

Consolidated statement of financial position - continued
As at 31 December 2021

	Notes	2021 £'m	2020 £'m
Current liabilities			
Trade and other payables	17	338.0	131.0
Bank and other borrowings	18	21.6	36.2
Corporation tax		3.9	-
Derivative financial instruments	13	230.6	87.9
Lease liabilities	19	3.2	0.2
		<u>597.3</u>	<u>255.3</u>
Total liabilities		<u>1,306.3</u>	<u>592.3</u>
Total equity and liabilities		<u>1,246.7</u>	<u>677.2</u>

The consolidated financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on 29 July 2022.. They were signed on its behalf by:



R D Hardy – Director and Chairman

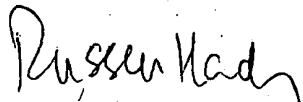
VPI Holding Limited (Registered number: 08484743)

**Company statement of financial position
As at 31 December 2021**

	Notes	2021 £'m	2020 £'m
Assets			
Non-current assets			
Trade and other receivables	15	147.8	147.8
Investments	12	408.1	408.1
		<u>555.9</u>	<u>555.9</u>
Current assets			
Trade and other receivables	15	44.2	4.2
Cash and cash equivalents		0.1	12.5
		<u>44.3</u>	<u>16.7</u>
Total		<u>600.2</u>	<u>572.6</u>
Equity			
Shareholders' equity			
Called up share capital			
Share premium		241.6	241.6
Retained earnings		156.6	117.8
Total equity		<u>398.2</u>	<u>359.4</u>
Liabilities			
Non-current liabilities			
Borrowings	18	186.8	186.8
Current liabilities			
Trade and other payables	17	15.2	26.4
Total liabilities		<u>202.0</u>	<u>213.2</u>
Total equity and liabilities		<u>600.2</u>	<u>572.6</u>

The Company reported a profit for the year ended 31 December 2021 of £198.8m (2020: loss of £3.3m).

The financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on 29 July 2022. They were signed on its behalf by:


R D Hardy – Director and Chairman

VPI Holding Limited

Consolidated statement of changes in equity For the year ended 31 December 2021

	Share Capital £'m	Retained Earnings £'m	Share Premium £'m	Total Equity £'m
Balance at 1 January 2020	-	(164.1)	241.6	77.5
Changes in equity				
Total comprehensive income	-	7.4	-	7.4
Balance at 31 December 2020	-	(156.7)	241.6	84.9
Changes in equity				
Dividends (note 10)	-	(160.0)	-	(160.0)
Total comprehensive income	-	15.5	-	15.5
Balance at 31 December 2021	-	(301.2)	241.6	(59.6)

Retained earnings consist of the combined trading profits and losses of the member group companies less distributed dividends.

VPI Holding Limited

Company statement of changes in equity For the year ended 31 December 2021

	Called up Share capital £'m	Retained earnings £'m	Share premium £'m	Total Equity £'m
Balance at 1 January 2020	-	121.1	241.6	362.7
Changes in equity				
Total comprehensive expense	-	(3.3)	-	(3.3)
Balance at 31 December 2020	-	117.8	241.6	359.4
Changes in equity				
Total comprehensive income	-	198.8	-	198.8
Dividends (note 10)	-	(160.0)	-	(160.0)
Balance at 31 December 2021	-	156.6	241.6	398.2

Retained earnings consist of the combined profits and losses of the Company less distributed dividends.

VPI Holding Limited

Consolidated statement of cash flows For the year ended 31 December 2021

	Notes	2021 £'m	2020 £'m
Cash flows from operating activities			
Cash generated from operations	(i)	59.9	120.7
Tax paid		(14.1)	(28.0)
Net cash from operating activities		<u>45.8</u>	<u>92.7</u>
Cash flows from investing activities			
Purchase of subsidiary	3	(186.2)	-
Cash acquired with subsidiary		1.6	-
Purchase of tangible fixed assets		(16.7)	(3.3)
Interest received		0.3	0.1
Net cash used in investing activities		<u>(201.0)</u>	<u>(3.2)</u>
Cash flows from financing activities			
Interest paid		(20.5)	(14.1)
Principal elements of lease payments	(ii)	(2.8)	(0.6)
Proceeds from issue of borrowings	(ii)	275.0	-
Repayment of borrowings	(ii)	(64.6)	(32.3)
Arrangement fees paid on refinance	(ii)	(7.0)	-
Proceeds from sale and leaseback		98.0	-
Equity dividends paid		(160.0)	-
Net cash generated from / (used in) financing activities		<u>118.1</u>	<u>(47.0)</u>
(Decrease) / increase in cash and cash equivalents		<u>(37.1)</u>	<u>42.5</u>
Cash and cash equivalents at beginning of year		<u>95.6</u>	<u>53.1</u>
Cash and cash equivalents at end of year		<u>58.5</u>	<u>95.6</u>

Cash and cash equivalents comprises cash at bank.

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2021

(i) Reconciliation of profit before income tax to cash generated from operations

	Notes	2021 £'m	2020 £'m
Group			
Profit before income tax		66.8	19.7
Depreciation charges	12	38.5	27.7
Fair value losses on derivative financial instruments		137.3	24.3
Assets under construction written off	7	-	1.1
Profit on sale	19	(18.6)	-
Finance costs	6	21.6	17.5
Finance income	6	(0.3)	(0.2)
		<u>245.3</u>	<u>90.1</u>
Increase in inventories		(205.5)	(1.5)
Increase in trade and other receivables		(110.8)	(7.8)
Increase in trade and other payables		<u>130.9</u>	<u>39.9</u>
Cash generated from operations		<u>59.9</u>	<u>120.7</u>

(ii) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1 January 2021 £'m	Additions £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2021 £'m
Loans from related parties	186.8	-	-	-	-	186.8
Bank loans	53.7	275.0	-	-	(64.6)	264.1
Capitalised borrowing costs	(0.4)	-	0.7	-	(7.0)	(6.7)
Leases	13.5	68.7	-	0.9	(2.8)	80.3
	<u>253.6</u>	<u>343.7</u>	<u>0.7</u>	<u>0.9</u>	<u>(74.4)</u>	<u>524.5</u>

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2021

(ii) Changes in liabilities arising from financing activities (continued)

	1 January 2020 £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2020 £'m
Loans from related parties	186.8	-	-	-	186.8
Bank loan	86.0	-	-	(32.3)	53.7
Capitalised borrowing costs	(1.0)	0.6	-	-	(0.4)
Leases	13.7	-	0.4	(0.6)	13.5
	<u>285.5</u>	<u>0.6</u>	<u>0.4</u>	<u>(32.9)</u>	<u>253.6</u>

Further details in respect of the Group's financing liabilities are presented in note 18.

VPI Holding Limited

Notes to the consolidated financial statements For the year ended 31 December 2021

1. Statutory information

VPI Holding Limited ('the Company') is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office can be found within the General Information presented on page 1.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Acts 2006 applicable to companies reporting under IFRS. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006.

These consolidated financial statements and Company financial statements have been prepared on an historical cost basis, except for certain financial assets and liabilities which have been measured at fair value at the end of each reporting period as explained in the accounting policies below.

The accounting policies which follow set out those policies consistently applied in all material respects to all the periods presented unless otherwise stated. Policies are consistent for both the Company and the Group.

The Company in its own financial statements has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant & equipment;
- the requirement in the following paragraphs of IAS 1 Presentation of Financial Statements:
 - 10(d) statement of cash flows;
 - 16 statement of compliance with all IFRS;
 - 38A requirement for minimum of two primary statements, including cash flow statements;
 - 38B–D additional comparative information;
 - 111 statement of cash flows information;
 - 134–136 capital management disclosures;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies – continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings ('subsidiaries') drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company and using accounting policies consistent with the Company.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Standards issued but not yet effective

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

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

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

Adoption and impact of new standards

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

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

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies - continued

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the 'Statutory Result' column on the face of the Consolidated income statement. Unrealised gains and losses on derivative contracts are deducted from the Statutory Results in arriving at the 'Underlying Performance' for the year. The Group's Underlying Performance is consistent with the way management and the Board assess the performance of the Group. The intention is to reflect the underlying trading performance of the Group's businesses and to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

'Derivative financial instruments' constitute unrealised gains or losses on derivative contracts. Once the gains or losses are realised, the previously recognised fair value movements are then reversed through remeasurements and recognised within underlying performance within the same financial statement line.

Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern. The Group's underlying cash flow is strong with net cash inflows of £122.9m and £42.5m pre dividend payments in the current and prior financial year respectively. The Group has also seen profitable results in both the current and prior financial year of £15.5m and £7.4m. After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2023, and considering the principal risks and uncertainties on pages 3 and 4, including applying appropriate downside sensitivities with a focus on commodity prices, the Directors are confident that the Group has adequate resources to continue operations for the foreseeable future. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

In particular the Directors have considered the circumstances surrounding the Covid-19 pandemic and do not deem the situation to cause significant disruption to operations or the profitability of the Company that would impact on this conclusion. The business is viewed as critical infrastructure and so recent lockdown actions have not materially impacted on the business and its ability to operate as well as the capacity of the Group to manage associated sensitivities to its forecast profitability and cash generation within its available financing and covenants. The Group has access to an undrawn working capital facility of £30.0m should management deem it necessary (note 13).

Foreign currencies

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

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

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies - continued

Revenue recognition

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

Revenues associated with sales of power, steam, water and ancillary services are recognised when title passes to the customer on delivery being the performance obligation defined within the contract with the customer. All revenues and costs related to the trading of power are recorded on a gross basis within revenue and cost of sales. Revenue and costs related to the trading of commodities consumed in the production process are recorded on a net basis within cost of sales.

Operating profit

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

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. Any amounts unpaid are accrued in the statement of financial position at the reporting date.

Interest receivable and payable

Interest receivable and payable is recognised in the period in which it occurs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxation

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

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

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.

Property, plant and equipment

Property, plant and equipment are stated at cost, being the fair value at the date of acquisition, less any subsequent accumulated depreciation and any impairment losses. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Plant	- 2 to 42 years
Land leases	- 1 to 35 years
Other plant and equipment	- 3 to 5 years
Decommissioning asset	- 3 to 42 years

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies - continued

Property, plant and equipment (continued)

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period of de-recognition.

Assets under construction are held at cost until brought into use, at which point depreciation commences.

When a major overhaul is performed, its cost is recognised in the carrying amount of other plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

Capital spares are included as property, plant and equipment in the financial statements within the CHP and CCGT plant category to the extent that the risks and rewards of ownership have been transferred to the Group.

Leases

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

The Group has entered into sale and leaseback arrangements.

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

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

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

Impairment of non-financial assets

Fixed assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the recoverable value of the assets. Where the sum of the discounted pre-tax cash flows is less than the carrying value of the asset, the carrying value is written down to estimated fair value. Assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets.

The fair value of impaired assets is determined based on the present values of expected future cash flows. The discount rates used equate to the rate of return that the market would generally expect from equally risky investments. The impairment assessment discounts the foreseeable life of the asset and includes appropriate sensitivities.

The expected future cash flows used for impairment reviews are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review.

Investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies – continued

Derivative financial instruments

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

Derivative contracts principally commodity and forward foreign currency exchange contracts, are recorded in the statement of financial position at fair value, with changes in fair value reflected through the income statement. Hedge accounting has not been applied.

Initial recognition and subsequent measurement

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

Inventories

Inventories, which primarily comprise of consumable engineering spares, are stated at the lower of cost and net realisable value. These are related to the short term maintenance, repair and service of the CHP and CCGT Plants. Cost is calculated using the weighted average method and excludes delivery costs. Storage and overhead costs are not included when calculating cost.

Cost includes all costs incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

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

Decommissioning provision

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

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

Financial instruments

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

Financial assets

Initial Recognition and measurement

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies - continued

Subsequent measurement

The subsequent measurement of financial assets depends on their underlying business model and cash flow characteristics in line with the requirements of IFRS 9. No amounts are recognised at fair value through other comprehensive income.

Financial assets at fair value through the income statement

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

Receivables

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

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

De-recognition of financial assets

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through the income statement, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies - continued

Subsequent measurement

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

Financial liabilities at fair value through the income statement

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

Interest bearing loans and borrowings

Obligations for loans and borrowings and trade creditors are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

De-recognition of financial liabilities

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

Cash and short term deposits

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

Critical accounting judgements and key sources of estimation uncertainty

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

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

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its UEL. UEL's are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually. The carrying value of property, plant and equipment at 31 December 2021 is £588.5m (2020: £420.7m) and depreciation on these assets in the year, based on the weighted average useful economic lives was £38.4m (2020: £27.7m).

Provision for decommissioning

The Group has recognised a provision for decommissioning obligations associated with the CHP and CCGT Plants. 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 CHP and CCGT Plants from the site and the expected timing of these costs. The carrying amount of the provision as at 31 December 2021 was £27.9m (2020: £14.9m). The Group estimates that the costs would be realised between 2023 and 2047 and calculates the provision using the discounted cash flow method based on key assumptions including the discount rate and inflation.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

2. Accounting policies – continued

Climate Change

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

3. Business combinations

The Group acquired 100% of the ordinary share capital of Drax Generation Enterprise Limited from Drax Smart Generation Limited on 31 January 2021. Drax Generation Enterprise Limited was renamed VPI Power Limited (VPIP) on 2nd Feb 2021.

VPIP owns and operates a portfolio of Combined Cycle Gas Turbine power stations ('the CCGT Plants') at Damhead Creek (805MW), Rye House (715MW) and Shoreham (420MW) in the south of England and Blackburn Mill (60MW) in the north of England.

The new sites are complementary to the Group's existing generation activities, widening the Group's UK footprint. The expanded portfolio of assets ensures the Group can support the UK power network and infrastructure to manage the impact of increasing renewable generation capacity by providing a flexible generation and system support.

The purchase consideration was £186.2m, payable entirely in cash, inclusive of working capital adjustments customary for a transaction of this type. Contingent consideration of £29.0m is payable if an event is triggered in relation to the Damhead Creek II project within 15 years of the completion date. The likelihood of triggering these events will be dependent on future capacity market auction outcomes and will be considered at each reporting date. This was not considered to be a probable outcome at the 31 December 2021 and no provision for contingent consideration has been recorded.

The initial consideration was paid on 31 January 2021, funded by a combination of £14.0m cash and the drawing of a £174.0m acquisition bridge facility from a related party. Interest was charged on the acquisition bridge facility at a rate of 3 months GBP LIBOR plus a margin of 2% per annum. The Group refinanced its external facility in September 2021 (see note 13) and repaid the bridge facility in full with the proceeds. Following a completion accounts process the final consideration adjustments were agreed and the balance settled in July 2021.

Acquisition related costs, including stamp duty and advisors fees, amounted to £4.2m. This is disclosed on the face of the income statement.

The fair values of the assets and liabilities acquired are set out in the table below:

	£'m
Property, plant and equipment	192.4
Financial assets	77.1
Financial liabilities	(65.8)
Lease liabilities	(5.4)
Provisions	(13.8)
Deferred tax asset	1.7
Total identifiable net assets	186.2
Fair value of consideration paid (all cash)	(186.2)
Goodwill arising on acquisition	0.0

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

3. Business combinations (continued)

The Group paid consideration which reflected the carrying value of the assets, and approximated the fair value of these assets.

The amount of revenue and profit of VPIP since the acquisition date included in the consolidated income statement for the period ended 31 December 2021 was £916.5m and £86.1m respectively.

Had VPIP's results been included in the current financial year as though it had been acquired at the start of the reporting period, 1 January 2021, the amount of consolidated revenue and profit for the year would have been £2,131.9m and £31.2m respectively.

4. Revenue

Revenue is attributable to the principal activity of the Group, the production of power and steam. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service.

An analysis of revenue, which all arose in the United Kingdom, is given below:

	2021 £'m	2020 £'m
Sale of goods and services	2,115.6	915.1
IFRS 9 Derivative movements	(35.9)	(176.1)
Total	2,079.7	739.0

Revenue from one customer amounted to £1,635.0m (2020: £820.6m), see note 23.

There were no contract assets or liabilities at 31 December 2021 (2020: £nil).

5. Employees and directors

Staff costs are included in operating and administrative expenses.

Staff costs, excluding directors, were as follows:

	2021 £'m	2020 £'m
Wages & salaries	16.2	6.6
Social security costs	1.7	0.8
Other pension costs (note 22)	2.4	0.7
Other costs	0.8	0.3
	21.1	8.4

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

5. Employees and directors - continued

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

	2021 No.	2020 No.
Administration	36	20
Plant	168	46
	<u>204</u>	<u>66</u>

The Company had no employees in the current or previous financial year.

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

6. Net finance costs

Interest receivable and similar income

	2021 £'m	2020 £'m
Interest receivable on bank deposits	-	0.2
Other interest receivable	0.3	-
	<u>0.3</u>	<u>0.2</u>

Interest payable and similar expenses

	2021 £'m	2020 £'m
Interest payable on bank loans	3.4	2.4
Interest payable on related party loan notes	15.2	13.7
Amortisation of refinancing costs	1.5	0.6
Unwinding of discount on provisions (note 20)	0.6	0.3
Finance charges for lease liabilities (note 19)	0.9	0.5
	<u>21.6</u>	<u>17.5</u>

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

7. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2021 £'m	2020 £'m
Depreciation of property, plant & equipment:		
- owned by the Group	37.2	27.2
- right of use assets	1.2	0.5
Assets under construction written off	-	1.1
Inventories recognised as expense	1.2	0.3
Foreign exchange	(0.7)	(0.4)
	2021 £'000	2020 £'000
Auditor remuneration		
- audit of the Group Financial Statements	50	45
- audit of subsidiary entities	129	61
- tax compliance services	40	32
- other tax advisory services	24	24

Auditor remuneration above is presented in round thousands.

Fees paid to the Group's auditor, Deloitte LLP, for services to the Group are borne by VPI Immingham LLP, a subsidiary undertaking, with the exception of the audit fee for VPI Power Limited, which were borne by that entity.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

8. Income tax

The tax charge is made up as follows:

	2021 £'m	2020 £'m
Current income tax:		
UK corporation tax	19.2	13.8
Adjustments in respect of prior periods	(0.9)	-
Total current income tax expense	18.3	13.8
Deferred tax:		
Origination and reversal of temporary differences	9.2	(7.7)
Effect of changes in tax rates (increase from 19% to 25% - see below)	23.8	6.2
Adjustments in respect of prior periods	-	-
Total deferred tax	33.0	(1.5)
Tax charge reported in the consolidated income statement	51.3	12.3

Tax relating to other comprehensive income

For the current and preceding year there is no tax charged or credited in respect of items of other comprehensive income.

Reconciliation of the total tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%) is as follows:

	2021 £'m	2020 £'m
Profit on ordinary activities before tax	66.8	19.7
Tax calculated at UK standard rate of corporation tax of 19% (2020: 19%)	12.7	3.8
Effects of:		
Adjustments in respect of prior periods	(0.9)	-
Expenses not deductible for tax purposes	3.0	2.3
Deferred tax not recognised	0.9	-
Profit on sale of land	(3.5)	-
Other timing differences	(0.3)	-
Roll over relief	17.2	-
Changes in current year tax rates (increase from 19% to 25% - see below)	23.8	6.2
Changes to future year tax rates	(1.6)	-
Tax charge reported in the consolidated income statement	51.3	12.3

Future change in Corporation Tax rate

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

9. Company profit

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's profit for the financial year was £198.8m (2020: loss of £3.3m).

10. Dividends

	2021 £'m	2020 £'m
Final dividend for the year ended 31 December 2021 is £160,000 per share (2020: £nil per share)	160.0	-

11. Property, plant and equipment

Group	Leasehold land £'m	Land and Plant £'m	Other plant & equipment £'m	De- commissioning asset £'m	Assets under construction £'m	Total £'m
Cost or valuation						
At 1 January 2020	13.8	522.5	56.0	4.1	4.8	601.2
Additions	-	-	-	-	3.5	3.5
Revaluations	-	-	-	1.3	-	1.3
Transfer between classes	-	1.8	-	-	(1.8)	-
Written off	-	-	-	-	(1.1)	(1.1)
At 31 December 2020	13.8	524.3	56.0	5.4	5.4	604.9
Acquisition of subsidiary	5.2	125.5	-	-	61.7	192.4
Additions	23.2	-	-	-	29.4	52.6
Revaluations	(0.3)	-	-	0.5	-	0.2
Disposals	-	(39.0)	-	-	-	(39.0)
Transfer between classes	-	28.6	9.5	-	(38.1)	-
At 31 December 2021	41.9	639.4	65.5	5.9	58.4	811.1
Depreciation						
At 1 January 2020	0.5	110.8	43.4	1.8	-	156.5
Charge for the year	0.5	18.5	8.6	0.1	-	27.7
At 31 December 2020	1.0	129.3	52.0	1.9	-	184.2
Charge for the year	1.2	32.5	4.6	0.1	-	38.4
At 31 December 2021	2.2	161.8	56.6	2.0	-	222.6
Net book value						
At 31 December 2021	39.7	477.6	8.9	3.9	58.4	588.5
At 31 December 2020	12.8	395.0	4.0	3.5	5.4	420.7

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

11. Property, plant and equipment - continued

The Company does not have any property, plant and equipment.

All leasehold land is held under finance leases. See note 19 for details of additions during the year.

Assets under construction include capitalised interest of £0.1m (2020: £0.2m). The capitalised interest rate is 3 month LIBOR plus a margin.

12. Investments

Group

VLC Energy Limited, a joint venture in which the Group held a 50% share was liquidated in 2021.

The investment in the joint venture has previously been fully impaired and resulted in no gain/loss in the consolidated income statement.

Company

Shares in group
undertaking
£'m

Cost and Net book value

At 31 December 2020 and 31 December 2021

408.1

VPI Capture Limited was incorporated on 30 August 2021. 100 ordinary shares of £0.01 were issued at par value upon incorporation.

At 31 December 2021, the Company held 100% of the ordinary share capital of the following entities, all of which are incorporated and domiciled in England and Wales with the exception of VPI Power Limited, which is incorporated in Scotland:

Name of entity	Company number	Holding	Principal activities
VPI Immingham Operations Limited	03716311	Indirect	Intermediate Holding Company
VPI Generation Limited	10547196	Direct	Intermediate Holding Company
VPI Immingham B Limited	10630563	Direct	Energy Project Development
VPI Immingham Energy Park A	11153063	Direct	Energy Project Development
VPI Capture Limited		Direct	Dormant
VPI ICHP Limited	04047993	Indirect	Intermediate Holding Company
Immingham Energy Limited	03796899	Indirect	Intermediate Holding Company
VPI Immingham LLP	OC300980	Indirect	Energy generation
VPI Power Limited	SC189124	Indirect	Energy generation

The registered address of all subsidiary companies is 4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB with the exception of VPI Power Limited whose registered office is 20 Castle terrace, 2nd Floor, Saltire Court, Edinburgh, Scotland, EH1 2EN.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities

Summary of financial assets and financial liabilities

Group	2021	2020
Financial assets	£'m	£'m
Fair value through income statement:		
Derivative financial instruments non-current	90.2	6.1
Derivative financial instruments current	47.2	80.7
Assets at amortised cost:		
Trade receivables	75.0	11.4
Amounts owed by related parties	154.2	44.8
Cash and short-term deposits	58.5	95.6
	<u>425.1</u>	<u>238.6</u>

Group	2021	2020
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Trade payables	28.6	15.5
Amounts owed to related parties	0.1	1.2
Interest-bearing loans and borrowings non-current	499.7	217.2
Interest-bearing loans and borrowings current	24.8	36.4
Fair value through income statement:		
Derivative financial instruments non-current	60.7	15.5
Derivative financial instruments current	230.6	87.9
	<u>844.5</u>	<u>373.7</u>

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities - continued

Company	2021	2020
Financial assets	£'m	£'m
Assets at amortised cost:		
Amounts owed by group undertakings	191.9	151.2
Cash and short-term deposits	0.1	12.5
	<u>192.0</u>	<u>163.7</u>

Company	2021	2020
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Amounts owed by group undertakings	11.5	23.2
Amounts owed to related parties	-	1.1
Interest-bearing loans and borrowings non-current	186.8	186.8
	<u>198.3</u>	<u>211.1</u>

Group

	Carrying amount		Fair value	
Financial liabilities	2021	2020	2021	2020
	£'m	£'m	£'m	£'m
Interest-bearing loans and borrowings non-current	499.7	217.2	505.0	217.2
Interest-bearing loans and borrowings current	24.8	36.4	26.2	36.8
Total	<u>524.5</u>	<u>253.6</u>	<u>531.2</u>	<u>254.0</u>

With the exception of interest-bearing loans disclosed above, the carrying value of all financial assets is the same as their fair values.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities - continued

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project.

- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.

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

- The credit valuation adjustment in respect of the marked-to-market derivative positions has been assessed by the Group and concluded to not be material. As such no adjustment has been recognised in the current or prior year.

Fair value measurement

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, as defined within IFRS 13, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between levels during the period.

Derivative financial instruments are valued using a discounted cash flow model. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at an appropriate discount rate. Similar valuation methodologies are used for commodity forward contracts, foreign currency contracts and interest rate swaps. Management consider there to be no material unobservable inputs.

Group	2021 £'m	2020 £'m
Level 2		
Financial assets fair value through income statement		
Instruments designated at fair value	137.4	86.8

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities - continued

Group	2021 £'m	2020 £'m
Level 2		
Financial liabilities fair value through income statement		
Instruments designated at fair value	291.3	103.4
Financial assets - at fair value through income statement		
	2021 £'m	2020 £'m
Due within one year		
Commodity forward contracts	47.2	79.9
Foreign exchange forward contracts	-	0.8
Total current derivative financial assets	47.2	80.7
	2021 £'m	2020 £'m
Due after one year		
Commodity forward contracts	90.2	6.0
Foreign exchange forward contracts	-	0.1
Total non-current derivative financial assets	90.2	6.1

There are no financial instruments at Level 1 or 3.

Management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value movements in derivative financial instruments through the consolidated income statement reflect the change in fair value of those commodity forward contracts, interest rate swaps and foreign exchange forward contracts that are not designated in hedge relationships. They are nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

Financial liabilities – interest bearing loans and borrowings

Group	2021 £'m	2020 £'m
Interest bearing loans and borrowings:		
Floating rate unsecured redeemable loan notes	186.8	186.8
Bank borrowings	257.4	53.3
Lease liabilities	80.3	13.5
Total interest bearing loans and borrowings	524.5	253.6

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities – continued

During the financial year, the Group completed a refinancing. The previous term loan was repaid in full with the proceeds of the refinance. The new bank borrowings consist of a £275.0m 7 year term loan with fixed repayments and a final repayment of £114.8m at maturity in September 2028. To the extent cash generation exceeds pre-agreed levels the facility is also subject to additional cash sweep repayments, if such repayments are made the final repayment at maturity will be reduced. The interest rate applied to the bank borrowings is variable at compounded SONIA reference rates plus a margin. The principal balance at 31 December 2021 was £264.1m gross of arrangement fees.

Interest rate hedging instruments have been entered into to reduce the Groups exposure to adverse fluctuations in SONIA interest rates.

The carrying value of the bank borrowings differs from their fair value due to measurement at amortised cost using the EIR which reflects transaction costs incurred.

The bank lenders hold a full security package over the CHP and CCGT Plants, key contracts and bank accounts with related financial covenants (all covenant tests have been met during the year).

The redeemable loan notes which were obtained from its shareholders are due for repayment in 2025. The interest rate applied to this loan is variable at LIBOR plus a margin. The principal balance at 31 December 2021 was £186.8m (2020: £186.8m).

Guarantees and Letters of Credit amounting to £89.3m have been made. These obligations lapse on settlement of contractual arrangements.

Capital management

Capital includes floating rate unsecured redeemable loan notes and equity attributable to the equity shareholders of the parent. The primary object of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and any requirements of its financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as it deems necessary.

Group

Financial liabilities - at fair value through income statement

	2021 £'m	2020 £'m
Due within one year		
Commodity forward contracts	230.6	87.6
Interest rate hedging instrument	-	0.3
Total current derivative financial liabilities	230.6	87.9
	2021 £'m	2020 £'m
Due after one year		
Commodity forward contracts	60.4	15.5
Options	0.3	-
Total non-current derivative financial liabilities	60.7	15.5

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities – continued

The carrying value of these liabilities is the same as their fair value. Financial liabilities through the income statement reflect the change in fair value of those commodity forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Economic hedging activities and derivative financial instruments

Commodity price risk

As detailed in the Principal risks and uncertainties stated on pages 3 and 4 the Group trades power, natural gas and carbon credits on an ongoing basis as its operations require. The assumptions used in measuring the following sensitivity analysis are a reasonable approximation of possible changes.

The Group estimates that in relation to the commodity forward contracts a movement of 5% within the year end valuation of the portfolio of contracts could impact the income statement by £3.0m (2020: £0.03m).

Foreign currency risk

As detailed in the Principal risks and uncertainties stated on pages 3 and 4 the Group uses foreign exchange forward contracts to manage some of its transaction exposures.

The Group estimates that a movement of 5% in foreign currency would impact the income statement by £0.6m (2020: £0.1m).

Interest rate risk

As detailed in the Principal risks and uncertainties stated on pages 3 and 4 the Group uses interest rate swaps to manage its exposure to movements in interest rates.

The Group estimates a 1% movement in interest rates would impact its income statement by £3.2m (2020: £2.1m).

Financial instruments and cash deposits

As detailed in the Principal risks and uncertainties stated on pages 3 and 4 the Group actively manages investments of surplus funds. The majority of credit risk rests with a related party, Vitol SA, a subsidiary of Vitol BV, and is therefore deemed immaterial.

Liquidity risk

As detailed in the Principal risks and uncertainties stated on pages 3 and 4 the Group monitors the risk of a shortage of funds using cash flow forecasts.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

13. Financial assets and financial liabilities – continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments.

Group

Year ended 31 December 2021

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	24.8	499.7	-	524.5
Trade payables and amounts owed to related parties	-	28.7	-	-	-	28.7
Financial instruments at fair value through income statement	-	204.2	26.4	60.7	-	291.3
	<u>-</u>	<u>232.9</u>	<u>51.2</u>	<u>560.4</u>	<u>-</u>	<u>844.5</u>

Year ended 31 December 2020

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	36.4	217.2	-	253.6
Trade payables and amounts owed to related parties	-	16.7	-	-	-	16.7
Financial instruments at fair value through income statement	-	32.1	55.8	15.5	-	103.4
	<u>-</u>	<u>48.8</u>	<u>92.2</u>	<u>232.7</u>	<u>-</u>	<u>373.7</u>

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

See above on the Group's policy for derivative financial instruments.

Credit risk for banks and institutions is managed at a Group level, only independently rated parties meeting set criteria are accepted. The Group has guarantees and letters of credit in place where appropriate as disclosed above.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. The business provides energy to the UK power market through a related party and trades with adjacent refineries. As the majority of trading activity is with Vitol SA the credit risk exposure is considered to be immaterial. The Group has a good quality customer base through the periods of this report and there have been no bad or doubtful debts through the period. An impairment analysis is performed at each reporting date on an individual basis for clients using the credit loss model. The identified impairment loss was immaterial.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

14. Inventories

Group	2021 £'m	2020 £'m
Consumables	10.0	8.3
Emission allowances	203.8	-
	<u>213.8</u>	<u>8.3</u>

15. Trade and other receivables

Due within one year	Group		Company	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Trade debtors	75.0	11.4	-	-
Amounts owed by group undertakings	-	-	44.2	3.4
Amounts owed by related parties (note 23)	154.2	44.8	-	-
Accrued income	1.7	3.0	-	-
Prepayments	17.6	3.0	-	0.8
	<u>248.5</u>	<u>62.2</u>	<u>44.2</u>	<u>4.2</u>
Due after more than one year				
Amounts owed by group undertakings	-	-	147.8	147.8
Aggregate amounts	<u>248.5</u>	<u>62.2</u>	<u>192.0</u>	<u>152.0</u>

Current trade debtors and amounts due from group undertakings are non-interest bearing and are generally on terms of 30 to 45 days. As at 31 December 2021, as well as the previous year end, no trade or other receivables were overdue, nor were they impaired or provided for. All trade debtors were received from customers after the statement of financial position date but before the date of approval of these financial statements.

Accrued income of £1.7m at 31 December 2021 was received in full in 2022.

The carrying value of the trade and other receivables is their fair value.

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

16. Called up share capital

Authorised, issued but not fully paid

Number:	Class:	Nominal Value	2021 £	2020 £
1,000	Ordinary	£0.10	100	100

17. Trade and other payables

Due within one year

	Group		Company	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Trade payables	28.6	15.5	-	-
Amounts owed by group undertakings	-	-	11.5	23.2
Amounts owed by related parties (note 23)	0.1	1.2	-	1.1
Social security and other taxes	0.4	0.1	-	-
VAT	1.1	0.3	3.7	0.2
Accruals	307.8	112.0	-	1.9
Other accrued interest	-	1.9	-	-
	<u>338.0</u>	<u>131.0</u>	<u>15.2</u>	<u>26.4</u>

Current trade creditors are non-interest bearing and are normally settled within 30 - 45 day terms. Current other trade payables are non-interest bearing.

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

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

The carrying value of current trade payables is the same as their fair value.

VPI Holding Limited

Notes to the consolidated financial statements - continued
For the year ended 31 December 2021

18. Bank and other borrowings

Due within one year	Group		Company	
	2021 £'m	2020 £'m	2021 £'m	2020 £'m
Bank borrowings	21.6	36.2	-	-
Due after more than one year				
Bank borrowings	235.8	17.1	-	-
Floating rate unsecured redeemable loan notes	186.8	186.8	186.8	186.8
	<u>422.6</u>	<u>203.9</u>	<u>186.8</u>	<u>186.8</u>

All borrowings are denominated in pounds sterling and are held at amortised cost.

Note 13 provides information about the Group's loans and borrowing commitments and repayment obligations.

The Group has access to a £30.0m uncommitted revolving credit group facility from a related party Vitol SA. The Group has not drawn down upon this facility.

Included within the above loans are amounts falling due as follows:

	2021 £'m	2020 £'m
Within 1 year	21.6	36.2
Between two and five years	274.6	203.9
Later than 5 years	148.0	-
	<u>444.2</u>	<u>240.1</u>

19. Leases

The Group leases land occupied by some of its plants, ancillary buildings and car parks.

In December 2021 the Group entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek. The land was sold for net consideration of £98.0m and leased back on 12 and 15 year terms respectively. The transaction created right of use assets classified under leasehold land in property plant and equipment of £23.2m and lease liabilities of £63.5m. A profit of £18.6m was recorded on the sale.

The leases held by the group are due to expire within 1 and 28 years and have been discounted at rates between 3.75% and 5.48%

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

19. Leases - continued

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

	2021 £'m	2020 £'m
Property, plant and equipment:		
Right-of-use assets		
Land	39.7	12.8
Leases liabilities:		
Current	3.2	0.2
Non-current	77.1	13.3
	<u>80.3</u>	<u>13.5</u>

The income statement shows the following amounts relating to leases

	2021 £'m	2020 £'m
Depreciation	1.2	0.5
Interest expense	0.9	0.5
	<u>2.1</u>	<u>1.0</u>

Commitments in relation to finance leases are payable as follows:

	2021 £'m	2020 £'m
Within one year	7.4	0.7
Later than one year but not later than five years	30.8	2.8
Later than five years	<u>81.2</u>	<u>19.1</u>
Minimum lease payments	119.4	22.6
Future finance charges	<u>(39.1)</u>	<u>(9.1)</u>
Lease liability	<u>80.3</u>	<u>13.5</u>

The total cash outflow for leases in 2021 was £2.4m.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2021

20. Provisions

	Decommissioning £'m
At 1 January 2021	14.9
Acquisition of subsidiary	13.8
Revaluation	(1.4)
Unwinding of discount	0.6
At 31 December 2021	27.9

The decommissioning obligation in respect of the CHP and CCGT Plants has been estimated using the present value of future decommissioning costs, inflated using relevant long-term inflation rates and discounted at an applicable risk free interest rate. Management have undertaken an exercise to revalue the provision during the year (including the acquired amounts) reflecting the best available evidence of the expected costs to be incurred in future periods. As in the preceding year, no decommissioning costs are currently expected to be incurred within the next year. The effect of discounting recognised is being unwound over periods from 2023 to 2047.

21. Deferred tax

	2021 £'m	2020 £'m
Group		
At beginning of year	89.4	90.9
Acquisition of subsidiary	(1.7)	-
Charge/(credit) during the year	33.0	(1.5)
At the end of year	120.7	89.4

The provision for deferred tax is made up as follows:

	2021 £'m	2020 £'m
Group		
Accelerated capital allowances	77.4	59.3
Other timing differences	16.5	(0.3)
Derivative contracts	26.8	30.4
	120.7	89.4

22. Pension commitments

The Group operates a defined contribution scheme. As in the previous year there were no pension commitments unpaid at the statement of financial position date.

VPI Holding Limited

Notes to the consolidated financial statements - continued
For the year ended 31 December 2021

23. Related parties

Note 12 provides information about the Group's structure. The following transactions have been entered into with related parties during the relevant financial year:

VPI Immingham LLP and VPI Power Limited, both indirect subsidiaries, have entered into arm's length energy trading arrangements with Vitol SA, a subsidiary of Vitol Holding BV. Related party energy trading included in turnover is £1,635.0m (2020: £820.6m) and cost of goods sold is £1,588.9m (2020: £723.3m).

Included in note 15 is £154.2m (2020: £44.8m) owed from Vitol SA and included in note 17 is £0.1m (2020: £1.2m) owed to Vitol SA and the shareholders of VPI Holding Limited. These are trading balances.

The £186.8m (2020: £186.8m) floating rate unsecured redeemable loan notes included in note 18 are held jointly by the shareholders of VPI Holding Limited. Interest payable under these loan notes in the year was £15.2m (2020: £13.7m). At the 31 December 2021 accrued interest of £nil was due to shareholders (2020: £nil).

24. Ultimate parent company and controlling party

There is no ultimate parent or controlling party.

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

25. Events after the Balance Sheet date

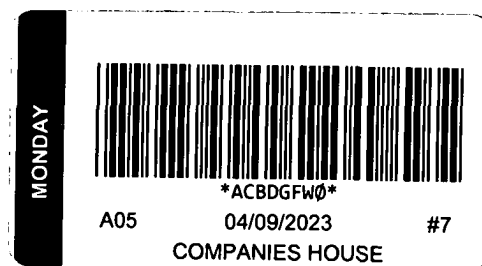
On 24 February 2022 hostilities broke out between the Russian Federation and Ukraine, to date we have only witnessed a marginal impact from this on our Group supply chains or cost base but continue to monitor this closely.

REGISTERED NUMBER: 08484743 (England and Wales)

Annual report and consolidated financial statements

for the year ended 31 December 2022

VPI Holding Limited



VPI Holding Limited

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VPI Holding Limited

Company information
For the year ended 31 December 2022

Directors:

R D Hardy
M Longstreth
S Hale

Company Secretary:

E J Essex

Registered office:

4th Floor, Nova South
160 Victoria Street
London
SW1E 5LB

Registered number:

08484743 (England and Wales)

Auditor:

Deloitte LLP
Statutory Auditor
1 New Street Square
London
United Kingdom
EC4A 3HQ

VPI Holding Limited

Group strategic report For the year ended 31 December 2022

The Directors present their strategic report for VPI Holding Limited ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2022.

Cautionary statement

These financial statements contain certain forward-looking statements with respect to the financial condition and business of the Group. 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 Group undertakes no obligation to provide an update in respect of 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 Group works with governments, grids and customers to strengthen energy security and grid stability in the rapidly-evolving energy landscape. Its principal activities are to develop, build and operate the energy generation and storage infrastructure needed both to ensure security of supply and to support the transition to Net Zero carbon emissions. These principal activities will continue for the foreseeable future.

In the current and previous financial year, the Group owned a combined heat and power plant at Immingham, North Lincolnshire ('the CHP Plant'), which generates and supplies steam to the adjacent Humber and Lindsey Oil Refineries and electricity to the Humber Oil Refinery and to the wholesale market (1260MW). The Group also owns and operates a portfolio of Combined Cycle Gas Turbine power stations which it acquired in the previous year ('the CCGT Plants') at Damhead Creek (812MW), Rye House (715MW) and Shoreham (460MW) in the South of England and Blackburn Mill (60MW) in the North of England which supply electricity to the wholesale market. The assets also provide firm capacity to the electricity network and critical balancing and ancillary services to the network operator.

During the current period, the Group acquired 51% of the ordinary share capital of Castlelost Flex Gen Ltd, a company incorporated in the Republic of Ireland, from Avajah Energy Holdings Ltd on 23 June 2022. Castlelost Flex Gen Ltd owns the development rights for a 275MW Open Cycle Gas Fired power plant (see note 3 for further details). The Group also has a two further consented development projects at the Immingham site, being a 50MW peaking plant and a 299MW open cycle gas turbine. Construction for all these assets commenced after the end of the year. They will add much needed capacity to the grids in Great Britain and Ireland, contributing to the security of supply and enabling transition to Net Zero. The Group continues to enhance its existing assets including in an upgrade to the Shoreham station in 2022 increasing its efficiency and output.

As the energy industry responds to societal demands, the Group has a priority to adapt its sites for a Net Zero future. Decarbonisation of the CHP Plant at Immingham forms a core part of this strategy. The Group is developing one of the most advanced carbon capture projects in the UK that, through retrofitting the plant with post-combustion capture systems, will remove more than 95% of its carbon emissions, with capacity to capture up to 3.3MT of CO₂ per annum. The project is a core component of Humber Zero, a large-scale decarbonisation project to remove up to 8 million tonnes of CO₂ per annum in the Humber region by 2030. The project continues to progress well, having completed the Front-End Engineering Design ('FEED') stage during 2023.

During the year, volatility in the energy markets was unprecedented, in part as a result of the invasion of Ukraine, but also due to system headroom declining as a result of asset retirements and increased levels of power being exported from the UK. The Adjusted Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) for the year was £643.9m (2021: £222.4m as restated) reflecting the impact of this and the increased demand for balancing and capacity services during the year (see key performance indicators page 3 for definition of adjusted).

The Group actively hedged its asset portfolio during the year, despite significant collateral requirements due to heightened volatility, both to secure revenues and meet customer demand for forward hedges, which was a significant contributor to the Group's financial performance. In addition to higher volatility, commodity prices were elevated during the year which is reflected in the increase in adjusted revenue to £5,594.8m (2021: 2,115.6m) and adjusted cost of sales, being predominantly gas and carbon costs, to £4,852.4m (2021: £1,817.1m as restated). Being able to hedge is contingent on delivering strong operational performance, and the Group continued to make significant investments in its operating assets to achieve high levels of reliability at key times when system margins were tight. In addition to ongoing capital investments, the Group also invested in teams and systems to fully ensure plant availability through the winter period.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2022 (continued)

Despite the strong performance of the business, cash generated from operating activities after tax paid of £111.2m (2021: £14.1m) was £178.3m (2021: £45.8m) as the fair value of forward commodity hedges was yet to be realised and the collateral requirements associated with hedging were significantly increased as a result of the increase in market volatility. The Group invested £76.6m of cash generated into existing assets (2021: £16.7m) including a major efficiency upgrade at Shoreham, continuing the Group's commitment to invest in existing assets to support security of supply and the transition to Net Zero. The Group paid £61.1m to service its borrowing facilities resulting in a net increase in cash during the year of £34.5m (2021: decrease of £37.1m).

The Group's Consolidated Statement of Financial Position, on pages 20 and 21, shows the Group has total assets less current liabilities of £1,689.4m (2021: £624.4m as restated). The increase is primarily due to the fair value of commodity contracts which had yet to be realised, along with the increased capital requirements for commodity hedging in the form of cash collateral.

The Company loss for the year was £4.3m (2021: profit £198.8m). Primarily this was due to loan interest payable exceeding loan interest receivable. In the previous financial year, the Company received £205.0m dividend income from its subsidiaries.

Events after the balance sheet date

On 23 March 2023 dividends of £220.0m were proposed and paid.

In order to manage the increased short-term capital requirements around hedging, the Group entered into two new revolving credit facilities after the year end. On 13 February 2023, the Group entered into a new £88m secured revolving credit facility with existing lenders ranking pari passu with existing senior debt available to September 2028. On 15 May 2023, the Group entered into a £500m unsecured revolving credit facility with Vitol S.A. of which £250m is committed.

On 23 June 2023, the Group acquired 80% of two battery energy storage sites with total capacity of 200MW, west of Dublin, in Ireland for a consideration of €99.9m. The remaining 20% is owned by an existing joint venture partner who developed the projects in 2021. The assets play an important role in Ireland in enabling the stable operation of the grid with increasing deployment of renewable generation.

Key performance indicators

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

Group	2022	Restated 2021	Change %
	£'m	£'m	
Adjusted Revenue	5,594.8	2,115.6	164%
Adjusted Gross profit	742.4	298.5	149%
Adjusted EBITDA*	643.9	222.4	190%
Adjusted gross profit as % of property, plant & equipment	119%	51%	68%

*EBITDA – 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Group. The Group also monitors a number of health & safety and environmental KPIs alongside the financial performance indicators.

All KPIs are stated prior to movements in derivative financial instruments, which is referred to as 'adjusted' performance as the business measures the performance without reference to the derivative movements. The movements on derivatives is included to arrive at the statutory reported results shown in the income statement.

Please refer to the principal activities, business review and future developments section of this report for an explanation of the change in the performance of the Group.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2022 (continued)

Key performance indicators (continued)

The Group has reviewed its accounting policy in relation to the accrual for the cost of carbon allowances and decided to amend its policy from a First In First Out (FIFO) approach to the carbon inventory to a Weighted Average Price (WAP) approach with effect from 1 January 2022. Commercially the Group uses the WAP method to match carbon trades to the corresponding gas trades on that day. High increases in the EUA/UKA price of carbon over the last few years has led to a large distortion arising in the FIFO and WAP values of carbon allowances. The Group desired for an alignment of the commercial position to the statutory financial statements and believes this provides a more accurate representation of the underlying business performance. In accordance with International Accounting Standards, the prior year results have been restated to reflect this change, the effects on the previous years' results are detailed in the accounting policies on page 36.

The Group has many non-financial performance indicators in place measuring health, safety and environment, which includes lost time accidents, environmental breaches and any high potential near misses. Safety of personnel, coupled with a responsible, proactive approach to managing the environment is core to the Group's business.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are those that impact the continuing business and profitability of the CHP and CCGT Plants and their related contracts.

Health, safety and environment

Given the nature of the Group's activities, the health and safety of all our employees, contractors and the public is of paramount importance. The Group nurtures and 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.

Climate change

The risk that the Group's strategy, investments or operations are deemed to have an unacceptable future impact on the natural environment and international targets to tackle climate change. As described later on in this report the Board is committed to being part of the pathway to Net Zero in the countries where it operates which is reflected in the investment strategy and the ongoing commitment to the Humber Zero project.

Energy and commodity price risk

The Group operates in the UK energy market, and as such, is exposed to fluctuations in wholesale energy prices both in the short and long term, which are driven by supply and demand, as these impact both the value of electricity produced and the cost of fuel required to generate. This exposure is managed through an active trading strategy to forward hedge plant output at profitable levels and to capture extrinsic value from short term price volatility. The invasion of Ukraine has led to both elevated prices and elevated commodity risk. The significant increase in gas prices has driven an increase in power prices. In the longer term the baseload spark spread (the differential between the power price and the cost of gas required to produce the power) is expected to decline as more low marginal cost renewables are added to the system however there will continue to be a need for gas-fired assets to provide power when renewable generation is low which is expected to result in higher capacity payments, thereby reducing overall exposure to commodity pricing.

The Directors consider that the Group's exposure to market fluctuations, which are mitigated by the use of certain derivative contracts, remains at an acceptable level.

Plant operating risk

Failure of an essential component of the CHP and CCGT Plants may result in the loss of generation through a plant outage or reduced output capacity. The Group manages this risk through continued investment in planned maintenance to ensure availability of the assets is top quartile and the assets are available at times of greatest demand when they are needed by the system most. The Group maintains third party insurance cover to mitigate against significant operating risks.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2022 (continued)

Political and regulatory risk

The Group operates in markets that have a high degree of regulatory, legislative and political intervention and uncertainty. The Group has in place robust compliance procedures which are focused on ensuring that all business conducted by the Group complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws. The UK Government is committed to a path towards a Net Zero energy system. The Group is committed to the decarbonisation of its assets which will be dependent on Government policy.

Cyber security risk

The Group is a target for cyber criminals as an operator of critical national infrastructure, and the threat is heightened following the Russian invasion of Ukraine. The Group Network & Information Systems ("NIS") function ensure that the right processes and systems are in place to protect against cyber threats and ensures that employees receive regular training to help them prevent an attack.

Supply chain risk

The Group is exposed to global supply chains in relation to its ongoing capital investment programmes which have been disrupted recently due to the geopolitical environment. The Group identifies potential risks to parts, supplies and contracts and takes steps to mitigate the effects, such as increasing levels of strategic supplies. The Russian invasion of Ukraine has contributed to high levels of ensuing inflation in supply chains, including in gas fuel stocks, parts and labour.

Foreign currency risk

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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.

Interest rate risk

The Group is exposed to interest rate risk resulting from the Group's loan and banking arrangements. The interest charged on Group loans is linked to SONIA, and therefore, it is exposed to the movements in the SONIA rates. The Group uses interest rate swaps to reduce its exposure to adverse fluctuations in SONIA interest rates.

Liquidity

Liquidity risk refers to the risk that the Group will encounter in realising assets or otherwise raising funds to meet commitments. During the year, Vitol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge. Subsequent to the year end, the Group has formalised these trading arrangements with Vitol S.A. by putting in place a new £500m unsecured revolving credit facility which £250m is committed. In addition the Group has entered into a revolving credit facility of £88m post year end with senior lenders and is also maintaining increased levels of cash to further bolster liquidity given the increased levels of market volatility.

At 31 December 2022 the Group had posted cash collateral with Vitol SA of £585m (2021: £60m) which it was able to do using increased cash reserves.

Changes in equity

On 27 September 2022 a written resolution was passed to reduce the Company's share premium account by £75.0m and for the capital to be returned to the shareholders as a dividend. On the same date a shareholders resolution was passed to issue new loan notes, totalling £75.0m to the Group's shareholders. The loan notes are due 2025 and have an interest rate of SONIA plus 700bps.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2022 (continued)

Streamlined Energy and Carbon Reporting

The CHP Plant comprises of three Large Combustion Plants as defined by articles 28 and 29 of the Industrial Emissions Directive and has a total output of 1,218 MW. The Group has an Environmental Management System externally certified to ISO 14001, 2015. In 2022, 180,280.3MWh (2021: 196,115MWh) of power consumed was generated on site, with 1,225.38 MWh (2021: nil MWh) of additional energy imported from National Grid. The total amount of natural gas and Refinery Off Gas used for generation activities was 40,618.87 TJ LHV (2021: 48,706.31 TJ). The CHP Plant is gas fired and therefore emits CO₂ from the generation process. The CO₂ emitted for 2022, as verified under the EU Emissions Trading Scheme, was 2,297,644 tCO₂(e) (2021: 2,742,865 tCO₂(e)). This figure includes emissions for transport used on site. Intensity ratio in 2022 was 0.43 Tonnes of CO₂ per MWh(e) including steam production converted to power at 0.292 MWh(e) per tonne (2021: 0.42 MWh(e) per tonne).

The CCGT power stations have a total output of 2,047 MW (2021: 2,000 MW). The Group has an Environmental Management System externally certified to ISO 14001, 2015. In 2022, 123,862.0 MWh (2021: 95,417MWh) of power consumed was generated on site with 32,564.92 MWh (2021: 42,553.51 MWh) of additional energy imported from National Grid. The total amount of natural gas used for generation activities was 38,255.53 TJ LHV in 2022 (2021: 30,295.19 TJ LHV). The CCGT power stations are gas fired and therefore emit CO₂ from the generation process. The CO₂ emitted for 2022, as verified under the EU Emissions Trading Scheme, was 2,144,195 tCO₂(e), (2021: 1,701,128 tCO₂(e)), this figure includes emissions from transport used on site. Intensity ratio in 2022 was 0.45 Tonnes of CO₂ per MWh (2021: 0.48 MWh(e) per tonne).

The intensity ratio for the Group in 2022 was 0.44 Tonnes of CO₂ per MWh(e) including steam production converted to power at 0.292 MWh(e) per tonne (2021: 0.44 MWh(e) per tonne).

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 Group have a duty to act as they consider most likely to promote the success of the Group 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 Group operates, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly between members of the Group.

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 Group's operations. The Group's forecasts are prepared using the Group's proprietary long-term supply and demand model with input from leading energy sector market consultants and are carefully considered by the Group'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 Directors believe that achieving Net Zero is fundamental to all of our futures and getting there means embracing a new energy reality, balancing vision with practical action to find solutions that work. The Board is committed to being part of the pathway to Net Zero in the countries where it operates, through investing in the reliability and efficiency of the existing flexible generation portfolio along with investing in new capacity to ensure security of supply whilst the system is in transition, but also by investing in the decarbonisation of its existing fleet to bring dispatchable low carbon power onto the system.

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

VPI Holding Limited

Group strategic report
For the year ended 31 December 2022 (continued)

Employee interest and engagement

The Group'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 enables open communication throughout the Group at all times and an open door for new ideas and ways of working. Employees are further updated on Group matters through regular townhalls, newsletters and face to face meetings.

Our dialogue with employees includes regular communication about the Group's strategy, plans and performance. During 2022, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to people, safety and compliance, reliability, profitability and business growth. Annual bonuses for a large number of employees are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned.

Some employees are represented by a trade union so there is regular engagement with trade union representatives. The Group'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 Group carries out rigorous, risk based Know Your Customer (KYC) procedures on its partners and counterparts, and monitor these on an ongoing basis, as appropriate.

The Group is a leading partner in a large scale decarbonisation program, Humber Zero working with its neighbouring industries and customers and the UK Government, to create a carbon neutral industrial hub in the Humber region.

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 Group has in place robust compliance procedures which are focused on ensuring that all business conducted by the Group complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws.

The Group 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 Group demands a 'safety first' culture. As a portfolio of power plants, safety is at the core of the business and great care is taken to ensure the safety of everyone on site, and to protect the surrounding environment. The Directors appreciate the risks involved in the energy sector and take their responsibilities extremely seriously. The Group has strong HSE policies in place and complies with international HSE standards and relevant legislation. The Group 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:



R D Hardy – Director and Chairman

Date: 26 July 2023

VPI Holding Limited

Report of the Directors For the year ended 31 December 2022

The Directors present their Annual Report with the audited financial statements of the Company and the Group for the year ended 31 December 2022.

Dividends

The Directors proposed and paid dividends for the year ended 31 December 2022 of £75.0m during the year (2021: £160.0m). On 23 March 2023, after the year end, dividends of £220.0m were proposed and paid.

Directors

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

S Hale (appointed 16 December 2022)
R D Hardy
M Longstreth
J Ahmed (resigned 16 December 2022)

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.

Principal activities and future developments

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

Streamlined Energy and Carbon Reporting

The streamlined energy and carbon reporting requirements of the Group are outlined in the Strategic Report, on pages 5 and 6.

Employees and employee engagement statement

The Group 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. Employee interest and engagement practices are further outlined in the Strategic report, on page 6.

The Group 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 Group 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 Group's business relationships is outlined in the Directors' duty to report the success of the company section of the Strategic Report.

Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern. The Group's underlying cash flow is strong with net cash inflows of £109.5m and £122.9m pre-dividend payments in the current and prior financial year respectively. During the year, Vitol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge. Subsequent to the year end, the Group has formalised these trading arrangements with Vitol S.A. by putting in place a new £500m unsecured revolving credit facility of which £250m is committed. In addition the Group has entered into a revolving credit facility of £88m post year end with senior lenders and is also maintaining increased levels of cash to further bolster liquidity given the increased levels of market volatility.

After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2024, and considering the principal risks and uncertainties on pages 4 and 5, the Directors are confident that the Group 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.

VPI Holding Limited

Report of the Directors

For the year ended 31 December 2022 (continued)

Financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which such a derivative contract is entered into and are subsequently re-assessed at their fair value at each reporting period end.

Derivative financial instruments are used by the Group to manage exposure to the principal risks arising as set out within the Strategic Report on pages 4 and 5. This section of the Strategic report also considers the Group's exposure to other types of risk and how it seeks to mitigate these risks.

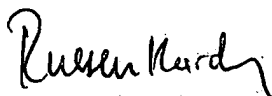
Disclosure of information to auditor

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

Auditor

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

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



R D Hardy – Director and Chairman

Date: 26 July 2023

VPI Holding Limited

Statement of Directors' responsibilities For the year ended 31 December 2022

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 group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The Directors have chosen to prepare the parent company 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 the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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 Holding Limited

Independent auditor's report to the members of VPI Holding Ltd

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of VPI Holding Ltd (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent 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 as applied to listed entities, 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.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Summary of our audit approach

Key audit matters	The key audit matter that we identified in the current year was: • Revenue recognition in relation to the cut off assertion
Materiality	The materiality that we used for the group financial statements was £10.4m which was determined on the basis of the three year average group underlying EBITDA. Materiality represents 1.6% of the current year group underlying EBITDA.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	In the prior year, a key audit matter was identified in relation to the acquisition of VPI Power Limited, a power generation business. This was one-off in nature and there is no complex accounting treatment in the current year. This has therefore not been included as a key audit matter in the current year.

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.

Our evaluation of the Directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the assumptions used in the Group's Business Plan, including performing sensitivity analysis in relation to assumptions for future commodity prices and risk of plant outages;
- assessing the financing arrangements in place;
- assessing the appropriateness of the disclosures made in the financial statements; and
- reviewing the amount of headroom in the forecasts.

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 group's and parent 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.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Revenue recognition in relation to cut off

Key audit matter description	Revenue for the Group is stated in the consolidated income statement at £7,031.0m as at 31 December 2022 (2021: £2,079.7m). Further details are included within note 4 of the financial statements. Revenues associated with sales of power, steam and water are recognised when title passes to the customer. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service. Material invoices are raised around year end and if these were recorded in the incorrect accounting period that would lead to a material misstatement. Therefore there is a cut-off risk in relation to sales being recognised within the incorrect period around the reporting date. Further details regarding the group's revenue recognition policy can be found within note 2 to the financial statements on page 31.
How the scope of our audit responded to the key audit matter	To assess the appropriateness of revenue recognition in relation to cut off, we evaluated and sample tested revenue transactions one month either side of the reporting date and assessed whether they had been included in the correct accounting period. We tested the relevant controls related to revenue cut-off and obtained an understanding of the revenue process at financial year end.
Key observations	Based on the work performed we are satisfied that the revenue transactions have been recorded in the correct accounting periods.

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£10.4m (2021: £7.3m)	£3.6m (2021: £2.5m)
Basis for determining materiality	The materiality that we used for the group financial statements was £10.4m which was determined on the basis of the three year average group underlying EBITDA in line with previous periods. Materiality represents 1.6% of the current year group underlying EBITDA (2021: 2.9% of the group underlying EBITDA). Underlying EBITDA is defined as 'Earnings before interest, taxation, depreciation and amortisation' before unrealised movements on derivative financial instruments.	3% of net assets (2021: 3% of net assets) capped at 50% (2021: 50%) of the performance materiality identified for the group.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements, including management. Underlying EBITDA has been selected as an appropriate measure as this is the key measure on which the performance of the business is assessed and the attention of the users of the entity's financial statements tend to be focused.	When determining materiality we note the primary activity of this company is to hold investments in other group companies and fund other entities through intercompany loans. Net assets has therefore been determined as an appropriate benchmark for determining materiality.
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Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2021: 70%) of group materiality	70% (2021: 70%) of parent company materiality
Basis and rationale for determining materiality	In determining performance materiality, we considered the following factors: • The low level of historical uncorrected misstatements within the consolidated financial statements; and • Our assessment of the control environment.	

Error reporting threshold

We agreed with the Directors that we would report to them all audit differences in excess of £0.5m (2021: £0.4m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Directors on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

The group parent company is VPI Holdings Limited which holds investments in the other group companies. The main trading companies are VPI Immingham LLP and VPI Power Limited. There are other subsidiary companies which are holding companies and developing power plants.

All components are in scope and are audited at the lower of their statutory and component materiality ranging from £6.8m to £0.05m (2021: £4.9m to £0.05m). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Our consideration of the control environment.

We took no controls reliance across our audit. However, with the involvement of our IT specialists we obtained an understanding and assessed the relevant IT controls.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Our consideration of the climate-related risks.

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process when considering the principal risks and uncertainties facing the Group, as explained in the group strategic report on page 4. We have:

- assessed how the Directors considered climate change in their assessment of the impact on the financial statements, including the going concern assumption, based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- assessed how the impact of climate change has been considered within individual financial statement lines which are supported by forward looking forecasts and estimates; and
- evaluated the appropriateness of disclosures included in the financial statements and have read the climate risk disclosures included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

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

In preparing the financial statements, the Directors are responsible for assessing the group's and the parent 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 group or the parent 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.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT and financial instruments specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in revenue recognition in relation to the cut off assertion. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory framework that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Identifying and assessing potential risks related to irregularities (continued)

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulations established by regulators in the key markets in which the Group operates, including the Office of Gas and Electricity Markets (Ofgem).

Audit response to risks identified

As a result of performing the above, we identified revenue recognition in relation to cut off as a key audit matter related to the potential risk of fraud. The key audit matter section of our report explains the matter in more detail and also describes the specific procedures we performed in response to that key audit matter.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Directors and external legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the Directors' report.

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Marianne Milnes

Marianne Milnes FCA (Senior statutory auditor)

For and on behalf of Deloitte LLP

Statutory Auditor

London, United Kingdom

Date: 26 July 2023

VPI Holding Limited

Consolidated income statement For the year ended 31 December 2022

	Notes	Year ended 31 December 2022			Restated*** Year ended 31 December 2021		
		Adjusted Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m	Adjusted Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m
Revenue	4	5,594.8	1,436.2	7,031.0	2,115.6	(35.9)	2,079.7
Cost of sales		(4,852.4)	(748.9)	(5,601.3)	(1,817.1)	(99.4)	(1,916.5)
Gross profit/(loss)		742.4	687.3	1,429.7	298.5	(135.3)	163.2
Operating and administrative expenses		(98.5)	(1.8)	(100.3)	(76.1)	(1.0)	(77.1)
EBITDA**		643.9	685.5	1,329.4	222.4	(136.3)	86.1
Depreciation		(44.4)	-	(44.4)	(38.5)	-	(38.5)
Profit on sale and leaseback		-	-	-	18.6	-	18.6
Acquisition related costs	3	(0.3)	-	(0.3)	(4.2)	-	(4.2)
Operating profit/(loss)	7	599.2	685.5	1,284.7	198.3	(136.3)	62.0
Interest receivable and similar income	6	5.0	15.7	20.7	0.3	-	0.3
Interest payable and similar expenses	6	(48.7)	-	(48.7)	(21.6)	(1.0)	(22.6)
Profit/(loss) before tax		555.5	701.2	1,256.7	177.0	(137.3)	39.7
Tax	8	(239.3)	-	(239.3)	(47.4)	-	(47.4)
Profit/(loss) for the financial year		316.2	701.2	1,017.4	129.6	(137.3)	(7.7)
Total comprehensive income is attributable to:							
Owners of VPI Holding Limited		316.2	701.2	1,017.4	129.6	(137.3)	(7.7)
Non-controlling interests		-	-	-	-	-	-
		316.2	701.2	1,017.4	129.6	(137.3)	(7.7)

All amounts relate to continuing operations in both current and preceding years.

The Group has no other gains, losses or sources of other comprehensive income other than those presented above. As such, no statement of other comprehensive income has been presented.

* Adjusted Performance is before unrealised movements on derivative financial instruments.

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

***Restated – Refer to note 2 Accounting policies, Carbon accounting – change in accounting policies for details of the prior year restatement.

VPI Holding Limited (Registered number: 08484743)

**Consolidated statement of financial position
As at 31 December 2022**

	Notes	2022 £'m	Restated* 2021 £'m
Assets			
Non-current assets			
Property, plant and equipment	11	622.9	588.5
Derivative financial instruments	13	114.8	90.2
		<u>737.7</u>	<u>678.7</u>
Current assets			
Inventories	14	11.0	213.8
Trade and other receivables	15	877.9	248.5
Corporation tax		-	0.4
Derivative financial instruments	13	1,197.0	47.2
Cash and cash equivalents		93.0	58.5
		<u>2,178.9</u>	<u>568.4</u>
Total assets		<u>2,916.6</u>	<u>1,247.1</u>
Equity			
Shareholders' equity			
Called up share capital		-	-
Share premium		166.6	241.6
Retained earnings		691.2	(326.2)
		<u>857.8</u>	<u>(84.6)</u>
Capital and reserves attributable to owners of VPI Holding Limited		857.8	(84.6)
Non-controlling interests		-	-
Total equity		<u>857.8</u>	<u>(84.6)</u>
Liabilities			
Non-current liabilities			
Bank and other borrowings	18	465.7	422.6
Derivative financial instruments	13	71.8	60.7
Deferred tax	21	188.4	120.7
Lease liabilities	19	81.0	77.1
Provisions	20	24.7	27.9
		<u>831.6</u>	<u>709.0</u>

VPI Holding Limited (Registered number: 08484743)

Consolidated statement of financial position - continued
As at 31 December 2022

	Notes	2022 £'m	<i>Restated*</i> 2021 £'m
Current liabilities			
Trade and other payables	17	449.5	367.3
Bank and other borrowings	18	21.7	21.6
Corporation tax		60.2	-
Derivative financial instruments	13	692.5	230.6
Lease liabilities	19	3.3	3.2
		<u>1,227.2</u>	<u>622.7</u>
Total liabilities		<u>2,058.8</u>	<u>1,331.7</u>
Total equity and liabilities		<u>2,916.6</u>	<u>1,247.1</u>

*Restated – Refer to note 2 Accounting policies, Carbon accounting – change in accounting policies for details of the prior year restatement

The consolidated financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on...26. July. 2023..... . They were signed on its behalf by:



R D Hardy – Director and Chairman

VPI Holding Limited (Registered number: 08484743)**Company statement of financial position
As at 31 December 2022**

	Notes	2022 £'m	2021 £'m
Assets			
Non-current assets			
Trade and other receivables	15	147.8	147.8
Investments	12	408.4	408.1
		<u>556.2</u>	<u>555.9</u>
Current assets			
Trade and other receivables	15	45.5	44.2
Cash and cash equivalents		12.3	0.1
		<u>57.8</u>	<u>44.3</u>
Total assets		<u>614.0</u>	<u>600.2</u>
Equity			
Shareholders' equity			
Called up share capital		-	-
Share premium		166.6	241.6
Retained earnings		152.3	156.6
		<u>318.9</u>	<u>398.2</u>
Liabilities			
Non-current liabilities			
Borrowings	18	261.8	186.8
Current liabilities			
Trade and other payables	17	33.3	15.2
		<u>295.1</u>	<u>202.0</u>
Total liabilities		<u>295.1</u>	<u>202.0</u>
Total equity and liabilities		<u>614.0</u>	<u>600.2</u>

The Company reported a loss for the year ended 31 December 2022 of £4.3m (2021: profit of £198.8m).

The financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on..26. July. 2023..... They were signed on its behalf by:



R D Hardy – Director and Chairman

VPI Holding Limited

Consolidated statement of changes in equity For the year ended 31 December 2022

	Called up share capital £'m	Retained Earnings £'m	Share premium £'m	Total £'m	Non- controlling interest £'m	Total equity £'m
Balance at 1 January 2021 as previously reported	-	(156.7)	241.6	84.9	-	-
Prior year adjustment	-	(1.8)	-	(1.8)	-	-
Balance at 1 January 2021 restated	-	(158.5)	241.6	83.1	-	-
Changes in equity						
Dividends (note 10)	-	(160.0)	-	(160.0)	-	-
Loss for the financial year as restated	-	(7.7)	-	(7.7)	-	-
Balance at 31 December 2021 restated	-	(326.2)	241.6	(84.6)	-	-
Changes in equity						
Reduction of share premium	-	75.0	(75.0)	-	-	-
Dividends (note 10)	-	(75.0)	-	(75.0)	-	-
Profit for the financial year	-	1,017.4	-	1,017.4	-	-
Balance at 31 December 2022	-	691.2	166.6	857.8	-	-

Retained earnings consist of the combined trading profits and losses of the member group companies less distributed dividends.

VPI Holding Limited

Company statement of changes in equity For the year ended 31 December 2022

	Called up share capital £'m	Retained earnings £'m	Share premium £'m	Total equity £'m
Balance at 1 January 2021	-	117.8	241.6	359.4
Changes in equity				
Dividends (note 10)	-	(160.0)	-	(160.0)
Profit for the financial year	-	198.8	-	198.8
Balance at 31 December 2021	-	156.6	241.6	398.2
Changes in equity				
Loss for the financial year	-	(4.3)	-	(4.3)
Reduction of share premium		75.0	(75.0)	-
Dividends (note 10)	-	(75.0)	-	(75.0)
Balance at 31 December 2022	-	152.3	166.6	318.9

Retained earnings consist of the combined profits and losses of the Company less distributed dividends.

VPI Holding Limited

Consolidated statement of cash flows For the year ended 31 December 2022

	Notes	2022 £'m	2021 £'m
Cash flows from operating activities			
Cash generated from operations	(i)	289.6	59.9
Tax paid		(111.2)	(14.1)
Net cash from operating activities		<u>178.4</u>	<u>45.8</u>
Cash flows from investing activities			
Purchase of subsidiary		-	(186.2)
Cash acquired with subsidiary		-	1.6
Purchase of tangible fixed assets		(76.6)	(16.7)
Interest received		0.9	0.3
Net cash used in investing activities		<u>(75.7)</u>	<u>(201.0)</u>
Cash flows from financing activities			
Interest paid		(28.1)	(20.5)
Proceeds from issue of borrowings	(ii)	75.0	275.0
Repayment of borrowings	(ii)	(33.0)	(64.6)
Arrangement fees paid on refinance	(ii)	-	(7.0)
Principal elements of lease payments	(ii)	(7.1)	(2.8)
Proceeds from sale and leaseback		-	98.0
Equity dividends paid		(75.0)	(160.0)
Net cash generated (used in) / from financing activities		<u>(68.2)</u>	<u>118.1</u>
Increase / (decrease) in cash and cash equivalents		<u>34.5</u>	<u>(37.1)</u>
Cash and cash equivalents at beginning of year		<u>58.5</u>	<u>95.6</u>
Cash and cash equivalents at end of year		<u>93.0</u>	<u>58.5</u>

Cash and cash equivalents is comprised of cash in the bank.

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2022

(i) Reconciliation of profit before income tax to cash generated from operations

	Notes	2022 £'m	Restated 2021 £'m
Group			
Profit before income tax		1,256.7	39.7
Depreciation charges	11	44.4	38.5
Fair value (gains)/losses on derivative financial instruments		(701.2)	137.3
Profit on sale	19	-	(18.6)
Finance costs	6	48.7	21.6
Finance income	6	(5.0)	(0.3)
		<u>643.6</u>	<u>218.2</u>
Decrease/(increase) in inventories		202.9	(205.5)
Increase in trade and other receivables		(627.5)	(110.8)
Increase in trade and other payables		70.6	158.0
		<u>289.6</u>	<u>59.9</u>

During the year Vitrol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge however at 31 December 2022 the Group had posted cash collateral with Vitrol SA of £585m (2021: £60m) which it was able to do using existing cash reserves.

(ii) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1 January 2022 £'m	Additions £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2022 £'m
Loans from related parties	186.8	75.0	-	-	-	261.8
Bank loans	264.1	-	-	-	(33.0)	231.1
Capitalised borrowing costs	(6.7)	(0.2)	1.4	-	-	(5.5)
Leases	80.3	7.0	-	4.1	(7.1)	84.3
	<u>524.5</u>	<u>81.8</u>	<u>1.4</u>	<u>4.1</u>	<u>(40.4)</u>	<u>571.7</u>

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2022

(ii) Changes in liabilities arising from financing activities (continued)

	1 January 2021 £'m	Additions £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2021 £'m
Loans from related parties	186.8	-	-	-	-	186.8
Bank loans	53.7	275	-	-	(64.6)	264.1
Capitalised borrowing costs	(0.4)	-	0.7	-	(7.0)	(6.7)
Leases	13.5	68.7	-	0.9	(2.8)	80.3
	<u>253.6</u>	<u>343.7</u>	<u>0.7</u>	<u>0.9</u>	<u>(74.4)</u>	<u>524.5</u>

Further details in respect of the Group's financing liabilities are presented in note 18.

VPI Holding Limited

Notes to the consolidated financial statements For the year ended 31 December 2022

1. Statutory information

VPI Holding Limited ('the Company') is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office can be found within the General Information presented on page 1.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Acts 2006 applicable to companies reporting under IFRS. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" and the Companies Act 2006.

These consolidated financial statements and Company financial statements have been prepared on an historical cost basis, except for certain financial assets and liabilities which have been measured at fair value at the end of each reporting period as explained in the accounting policies below.

The accounting policies which follow set out those policies consistently applied in all material respects to all the periods presented unless otherwise stated. Policies are consistent for both the Company and the Group.

The Company in its own financial statements has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 101 "Reduced Disclosure Framework":

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant & equipment;
- the requirement in the following paragraphs of IAS 1 Presentation of Financial Statements:
 - 10(d) statement of cash flows;
 - 16 statement of compliance with all IFRS;
 - 38A requirement for minimum of two primary statements, including cash flow statements;
 - 38B–D additional comparative information;
 - 11 statement of cash flows information;
 - 134–136 capital management disclosures;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies – continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings ('subsidiaries') drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company and using accounting policies consistent with the Company.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Standards issued but not yet effective

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

Standard	Title	Effective for periods commencing on or after
Amendments to IAS 1	Classification of liabilities as current or non-current	1 January 2024
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of accounting policies	1 January 2023
Amendments to IAS 8	Definition of accounting estimates	1 January 2023
Amendments to IAS 12	Deferred Tax relating to Assets and Liabilities arising from a Single Transaction	1 January 2023
Amendments to IFRS 16	Leases on sale and leaseback	1 January 2023
IFRS 17	Insurance contracts	1 January 2024

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

Adoption and impact of new standards

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2022:

- Amendments to IFRS 16, IAS 16, IFRS 3 and IAS 37.

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies - continued

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the 'Statutory Result' column on the face of the Consolidated income statement. Unrealised gains and losses on derivative contracts are deducted from the Statutory Results in arriving at the 'Underlying Performance' for the year. The Group's Underlying Performance is consistent with the way management and the Board assess the performance of the Group. The intention is to reflect the underlying trading performance of the Group's businesses and to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

'Derivative financial instruments' constitute unrealised gains or losses on derivative contracts. Once the gains or losses are realised, the previously recognised fair value movements are then reversed through remeasurements and recognised within underlying performance within the same financial statement line.

Going concern

There are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern. The Group's underlying cash flow is strong with net cash inflows of £109.5m and £122.9m pre-dividend payments in the current and prior financial year respectively. During the year, Vitol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge. Subsequent to the year end, the Group has formalised these trading arrangements with Vitol S.A. by putting in place a new £500m unsecured revolving credit facility of which £250m is committed. In addition the Group has entered into a revolving credit facility of £88m post year end with senior lenders and is also maintaining increased levels of cash to further bolster liquidity given the increased levels of market volatility.

After a detailed review of forward forecasts and loan facilities for the next 12 months to July 2024, and considering the principal risks and uncertainties on pages 4 and 5, the Directors are confident that the Group 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.

Foreign currencies

The Group's financial statements are presented in pounds sterling, which is the Group's functional currency, with the exception of Castlelost Flex Gen Limited, whose functional currency is Euro. All amounts are presented in millions unless otherwise stated.

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

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

The results and financial position of subsidiaries whose functional currency is not the presentational currency are translated into the presentational currency using the following procedure;

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the statements of financial position date.
- Income and expenses for each income statement are translated at the average exchange rate for that period
- All resulting exchange difference are recognised in other comprehensive income.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies - continued

Revenue recognition

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

Revenues associated with sales of power, steam, water and ancillary services are recognised when title passes to the customer on delivery being the performance obligation defined within the contract with the customer. All revenues and costs related to the trading of power are recorded on a gross basis within revenue and cost of sales. Revenue and costs related to the trading of commodities consumed in the production process are recorded on a net basis within cost of sales.

Operating profit

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

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. Any amounts unpaid are accrued in the statement of financial position at the reporting date.

Interest receivable and payable

Interest receivable and payable is recognised in the period in which it occurs.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxation

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

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

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.

Property, plant and equipment

Property, plant and equipment are stated at cost, being the fair value at the date of acquisition, less any subsequent accumulated depreciation and any impairment losses. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Plant	- 2 to 42 years
Land leases	- 1 to 35 years
Other plant and equipment	- 3 to 5 years
Decommissioning asset	- 3 to 42 years

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies - continued

Property, plant and equipment (continued)

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period of de-recognition.

Assets under construction are held at cost until brought into use, at which point depreciation commences.

When a major overhaul is performed, its cost is recognised in the carrying amount of other plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

Capital spares are included as property, plant and equipment in the financial statements within the CHP and CCGT plant category to the extent that the risks and rewards of ownership have been transferred to the Group.

Leases

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

The Group has entered into sale and leaseback arrangements.

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

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

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

Impairment of non-financial assets

Fixed assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the recoverable value of the assets. Where the sum of the discounted pre-tax cash flows is less than the carrying value of the asset, the carrying value is written down to estimated fair value. Assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets.

The fair value of impaired assets is determined based on the present values of expected future cash flows. The discount rates used equate to the rate of return that the market would generally expect from equally risky investments. The impairment assessment discounts the foreseeable life of the asset and includes appropriate sensitivities.

The expected future cash flows used for impairment reviews are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review.

Investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies – continued

Derivative financial instruments

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

Derivative contracts principally commodity and forward foreign currency exchange contracts, are recorded in the statement of financial position at fair value, with changes in fair value reflected through the income statement. Hedge accounting has not been applied.

Initial recognition and subsequent measurement

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

Inventories

Inventories comprise of consumable engineering spares and emission allowances. Consumable engineering spares are stated at the lower of cost and net realisable value. These are related to the short term maintenance, repair and service of the CHP and CCGT Plants. Cost is calculated using the weighted average method and excludes delivery costs. Storage and overhead costs are not included when calculating cost.

Cost includes all costs incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Emission allowances purchased are recognised at the lower of cost or net realisable value. Cost is calculated using the weighted average method.

Decommissioning provision

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

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

Financial instruments

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

Financial assets

Initial Recognition and measurement

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies - continued

Subsequent measurement

The subsequent measurement of financial assets depends on their underlying business model and cash flow characteristics in line with the requirements of IFRS 9. No amounts are recognised at fair value through other comprehensive income.

Financial assets at fair value through the income statement

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

Receivables

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

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

De-recognition of financial assets

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through the income statement, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies - continued

Subsequent measurement

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

Financial liabilities at fair value through the income statement

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

Interest bearing loans and borrowings

Obligations for loans and borrowings and trade creditors are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

De-recognition of financial liabilities

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

Cash and short term deposits

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

Carbon accounting – change in accounting policy

The Group has reviewed its accounting policy in relation to the accrual for the cost of carbon allowances and decided to amend its policy, in accordance with IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors, from a First In First Out (FIFO) approach to the carbon inventory and accrual to a Weighted Average Price (WAP) approach. This change was effective from 1 January 2022, and the accounting policy was applied retrospectively.

Commercially the Group uses the WAP method to match carbon trades to the corresponding gas trades on that day. High increases in the EUA/UKA price of carbon over the last few years has led to a large distortion arising in the FIFO and WAP values of carbon allowances. The Group desired for an alignment of the commercial position to the statutory financial statements and believes this provides a fairer reflection of how management commercially match trades and assess business performance.

There has been no material impact of this change on the inventory balance either in the current or prior years. No carbon allowances were purchased as at 31 December 2022 and therefore the inventory balance was nil. The allowances purchased in 2021 were all purchased in December 2021 therefore the valuation under either methodology would be materially the same.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

Carbon accounting – change in accounting policy (continued)

The impact of this change in accounting policy is to reduce reserves at 1 January 2022 by £25.0m of which £23.2m relates to 2021 and £1.8m to prior periods. The line items in the profit and loss and balance sheet are increased/(decreased) as follows:

Income statement	2021 £'m	Prior periods £'m	Total prior year adjustment £'m
Cost of Sales	(27.1)	(2.2)	(29.3)
Gross profit/(loss)	(27.1)	(2.2)	(29.3)
Operating profit/(loss)	(27.1)	(2.2)	(29.3)
Profit/(loss) before tax	(27.1)	(2.2)	(29.3)
Tax	3.9	0.4	4.3
Profit/(loss) for the financial year	(23.2)	(1.8)	(25.0)
Statement of financial position	2021 £'m	Prior periods £'m	Total prior year adjustment £'m
Corporation tax	(3.9)	(0.4)	(4.3)
Retained earnings and total equity	23.2	1.8	25.0
Current liabilities (trade and other payables)	27.1	2.2	29.3
Total assets	-	0.4	0.4
Total liabilities	23.2	1.8	25.0
Total equity and liabilities	-	(0.4)	(0.4)
Consolidated statement of cashflows Note (i)	2021 £'m	Prior periods £'m	Total prior year adjustment '£m
Profit before income tax	(27.1)	(2.2)	(29.3)
Increase in trade and other payables	(27.1)	(2.2)	(29.3)

The effect on opening reserves in the Consolidated statement of changes in equity is shown on the face of that financial statement (page 23).

Critical accounting judgements and key sources of estimation uncertainty

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

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

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its UEL. UEL's are estimated and based on past experience, future replacement cycles and other available evidence. Useful economic lives are reviewed annually. The carrying value of property, plant and equipment (excluding right-of-use assets) at 31 December 2022 is £578.5m (2021: £548.8m) and depreciation on these assets in the year, based on the weighted average useful economic lives was £42.1m (2021: £37.2m).

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

2. Accounting policies – continued

Provision for decommissioning

The Group has recognised a provision for decommissioning obligations associated with the CHP and CCGT Plants. 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 CHP and CCGT Plants from the site and the expected timing of these costs. The carrying amount of the provision as at 31 December 2022 was £24.7m (2021: £27.9m). The Group estimates that the costs would be realised between 2023 and 2047 and calculates the provision using the discounted cash flow method based on key assumptions including the discount rate and inflation.

Climate Change

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

3. Business combinations

The Group acquired 51% of the ordinary share capital of Castlelost Flex Gen Ltd from Avajah Energy Holding Ltd on 23 June 2022.

Castlelost Flex Gen Ltd is developing a turnkey project in the Republic of Ireland, for the construction of a 275MW Open Cycle Gas Fired power plant. The Group is funding the project.

The purchase consideration was €1. Acquisition related costs amounted to £0.3m.

The fair values of the assets and liabilities acquired are set out in the table below:

	£'m
Property, plant and equipment	2.0
Financial assets	0.2
Financial liabilities	(2.2)
Total identifiable net assets	-
Fair value of consideration paid (all cash)	-
Non-controlling interest	-
Goodwill arising on acquisition	-

Castlelost Flex Gen Ltd has made £nil revenue and £nil profit since the date of the acquisition to 31 December 2022.

In the previous financial year, the Group acquired 100% of the ordinary share capital of Drax Generation Enterprise Limited from Drax Smart Generation Limited on 31 January 2021. Drax Generation Enterprise Limited was renamed VPI Power Limited (VPIP) on 2nd Feb 2021. Acquisition related costs, including stamp duty and advisors' fees, amounted to £4.2m

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

4. Revenue

Revenue is attributable to the principal activity of the Group, the production of power and steam. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service.

An analysis of revenue, which all arose in the United Kingdom, is given below:

	2022 £'m	2021 £'m
Sale of goods and services	5,594.8	2,115.6
IFRS 9 Derivative movements	1,436.2	(35.9)
Total	7,031.0	2,079.7

Revenue from one customer amounted to £4,988.6m (2021: £1,635.0m), see note 23. There were no contract assets or liabilities at 31 December 2022 (2021: £nil.)

5. Employees and Directors

Staff costs are included in operating and administrative expenses.

Staff costs, excluding Directors, were as follows:

	2022 £'m	2021 £'m
Wages & salaries	23.9	16.2
Social security costs	2.2	1.7
Other pension costs (note 22)	2.4	2.4
Other costs	1.7	0.8
	30.2	21.1

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

5. Employees and Directors - continued

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

	2022 No.	2021 No.
Administration	51	36
Plant	178	168
	<u>229</u>	<u>204</u>

The Company had no employees in the current or previous financial year.

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

6. Net finance costs

Interest receivable and similar income

	2022 £'m	2021 £'m
Interest receivable on bank deposits	0.3	-
Interest receivable on related party loans	3.5	-
Unwinding of discount on provisions (note 20)	0.6	-
Other interest receivable	0.6	0.3
IFRS 9 Derivative movements	15.7	-
	<u>20.7</u>	<u>0.3</u>

Interest payable and similar expenses

	2022 £'m	2021 £'m
Interest payable on bank loans	11.5	3.4
Interest payable on related party loan notes	31.7	15.2
Amortisation of refinancing costs	1.4	1.5
Unwinding of discount on provisions (note 20)	-	0.6
Finance charges for lease liabilities (note 19)	4.1	0.9
IFRS 9 Derivative movements	-	1.0
	<u>48.7</u>	<u>22.6</u>

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

7. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2022 £'m	2021 £'m
Depreciation of property, plant & equipment:		
- owned by the Group	42.1	37.2
- right of use assets	2.3	1.2
Inventories recognised as expense	1.4	1.2
Foreign exchange	(0.1)	(0.7)
	2022 £'000	2021 £'000
Auditor remuneration - audit of the Group Financial Statements	60	50
- audit of subsidiary entities	179	129
- tax compliance services	36	40
- other tax advisory services	21	24

Auditor remuneration above is presented in round thousands.

Fees paid to the Group's auditor, Deloitte LLP, for services to the Group are borne by VPI Immingham LLP, a subsidiary undertaking, with the exception of the audit fee for VPI Power Limited, which were borne by that entity.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

8. Income tax

The tax charge is made up as follows:

	2022 £'m	Restated 2021 £'m
Current income tax:		
UK corporation tax	157.3	19.2
Adjustments in respect of prior periods	14.3	(4.8)
Total current income tax expense	171.6	14.4
Deferred tax:		
Origination and reversal of temporary differences	83.9	9.2
Effect of changes in tax rates	-	23.8
Adjustments in respect of prior periods	(16.2)	-
Total deferred tax	67.7	33.0
Tax charge reported in the consolidated income statement	239.3	47.4

Tax relating to other comprehensive income

For the current and preceding year there is no tax charged or credited in respect of items of other comprehensive income.

Reconciliation of the total tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%) is as follows:

	2022 £'m	Restated 2021 £'m
Profit on ordinary activities before tax	1256.7	39.7
Tax calculated at UK standard rate of corporation tax of 19% (2021: 19%)	238.8	7.5
Effects of:		
Adjustments in respect of prior periods	(1.9)	(0.9)
Expenses not deductible for tax purposes	(2.0)	3.0
Deferred tax not recognised	-	0.9
Profit on sale of land	-	(3.5)
Timing difference on derivatives	(4.8)	-
Other timing differences	6.8	(1.0)
Roll over relief	-	17.2
Changes in current year tax rates	-	23.8
Changes to future year tax rates	2.4	(1.6)
Tax charge reported in the consolidated income statement	239.3	47.4

Future change in Corporation Tax rate

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

9. Company profit

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's loss for the financial year was £4.3m (2021: profit of £198.8m).

10. Dividends

	2022 £'m	2021 £'m
Interim dividend for the year ended 31 December 2022 is £75,000 per share (2021: £160,000 per share)	75.0	160.0

11. Property, plant and equipment

Group	Leasehold land £'m	Land and Plant £'m	Other plant & equipment £'m	De- commissioning asset £'m	Assets under construction £'m	Total £'m
Cost or valuation						
At 1 January 2021	13.8	524.3	56.0	5.4	5.4	604.9
Acquisition of subsidiary	5.2	125.5	-	-	61.7	192.4
Additions	23.2	-	-	-	29.4	52.6
Revaluations	(0.3)	-	-	0.5	-	0.2
Transfer between classes	-	28.6	9.5	-	(38.1)	-
Disposals	-	(39.0)	-	-	-	(39.0)
At 31 December 2021	41.9	639.4	65.5	5.9	58.4	811.1
Acquisition of subsidiary	-	-	-	-	2.0	2.0
Additions	-	0.5	-	-	71.9	72.4
Revaluations	7.0	-	-	(2.6)	-	4.4
Transfer between classes	-	47.6	36.7	-	(84.3)	-
At 31 December 2022	48.9	687.5	102.2	3.3	48.0	889.9
Depreciation						
At 1 January 2021	1.0	129.3	52.0	1.9	-	184.2
Charge for the year	1.2	32.5	4.6	0.1	-	38.4
At 31 December 2021	2.2	161.8	56.6	2.0	-	222.6
Charge for the year	2.3	35.0	5.8	1.3	-	44.4
At 31 December 2022	4.5	196.8	62.4	3.3	-	267.0
Net book value						
At 31 December 2022	44.4	490.7	39.8	-	48.0	622.9
At 31 December 2021	39.7	477.6	8.9	3.9	58.4	588.5

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

11. Property, plant and equipment - continued

The Company does not have any property, plant and equipment.

All leasehold land is held under finance leases. See note 19 for details.

Assets under construction include capitalised interest of £0.1m (2021: £0.1m). The capitalised interest rate is 3 month SONIA plus a margin.

12. Investments

Group

VPI Pipeline Company Limited was incorporated on 20 September 2022. 100 ordinary shares of £0.01 were issued at par value upon incorporation.

Company

	Shares in group undertaking £'m
Cost and Net book value	
At 31 December 2021	408.1
Additions	0.3
At 31 December 2022	408.4

On 23 June 2022 the Company acquired 51% of the shareholding of Castlelost Flex Gen Limited, a company incorporated in Ireland, being 102 ordinary shares of €1 for a consideration of €1. The principal activity of the acquired company is the development of an energy project. The registered number of Castlelost Flex Gen Limited is 696693 and its registered office is Parsons House, 56 Axis Business Park, Tullamore, Offaly, Ireland, R35 K744. Acquisition costs of £0.3m were capitalised in the financial year.

At 31 December 2022, the Company also held 100% of the ordinary share capital of the following entities, all of which are incorporated and domiciled in England and Wales with the exception of VPI Power Limited, which is incorporated in Scotland:

Name of entity	Company number	Holding	Principal activities
VPI Immingham Operations Limited	03716311	Indirect	Intermediate Holding Company
VPI Generation Limited	10547196	Direct	Intermediate Holding Company
VPI Immingham B Limited	10630563	Direct	Energy Project Development
VPI Immingham Energy Park A	11153063	Direct	Energy Project Development
VPI Capture Limited	13592161	Direct	Dormant
VPI ICHP Limited	04047993	Indirect	Intermediate Holding Company
Immingham Energy Limited	03796899	Indirect	Intermediate Holding Company
VPI Immingham LLP	OC300980	Indirect	Energy generation
VPI Power Limited	SC189124	Indirect	Energy generation
VPI Pipeline Company Limited	14364622	Indirect	Gas distribution

The registered address of all subsidiary companies is 4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB with the exception of VPI Power Limited whose registered office is 20 Castle terrace, 2nd Floor, Saltire Court, Edinburgh, Scotland, EH1 2EN.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities

Summary of financial assets and financial liabilities

Group	2022	2021
Financial assets	£'m	£'m
Fair value through income statement:		
Derivative financial instruments non-current	114.8	90.2
Derivative financial instruments current	1,197.0	47.2
Assets at amortised cost:		
Trade receivables	63.5	75.0
Amounts owed by related parties	798.0	154.2
Cash and short-term deposits	93.0	58.5
	<u>2,266.3</u>	<u>425.1</u>

Group	2022	2021
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Trade payables	48.2	28.7
Amounts owed to related parties	0.3	0.1
Interest-bearing loans and borrowings non-current	546.7	499.7
Interest-bearing loans and borrowings current	25.0	24.8
Fair value through income statement:		
Derivative financial instruments non-current	71.8	60.7
Derivative financial instruments current	692.5	230.6
	<u>1,384.5</u>	<u>844.6</u>

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities - continued

Company	2022	2021
Financial assets	£'m	£'m
Assets at amortised cost:		
Amounts owed by group undertakings	192.2	192.0
Amounts owed by related parties	1.1	-
Cash and short-term deposits	12.3	0.1
	<u>205.6</u>	<u>192.1</u>

Company	2022	2021
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Amounts owed by group undertakings	31.2	11.5
Amounts owed to related parties	2.1	-
Interest-bearing loans and borrowings non-current	261.8	186.8
	<u>295.1</u>	<u>198.3</u>

Group

Financial liabilities	Carrying amount		Fair value	
	2022	2021	2022	2021
	£'m	£'m	£'m	£'m
Interest-bearing loans and borrowings non-current	546.7	499.7	550.9	505.0
Interest-bearing loans and borrowings current	25.0	24.8	26.2	26.2
Total	<u>571.7</u>	<u>524.5</u>	<u>577.1</u>	<u>531.2</u>

With the exception of interest-bearing loans disclosed above, the carrying value of all financial assets is the same as their fair values.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities - continued

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments with various counterparties, principally energy companies. Derivatives which are valued using valuation techniques with market observable inputs comprise mainly of interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The models used incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- The credit valuation adjustment in respect of the marked-to-market derivative positions has been assessed by the Group and concluded to not be material. As such no adjustment has been recognised in the current or prior year.

Fair value measurement

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, as defined within IFRS 13, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between levels during the period.

Derivative financial instruments are valued using a discounted cash flow model. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at an appropriate discount rate. Similar valuation methodologies are used for commodity forward contracts, foreign currency contracts and interest rate swaps. Management consider there to be no material unobservable inputs.

Group	2022 £'m	2021 £'m
Level 2		
Financial assets fair value through income statement		
Instruments designated at fair value	1,311.8	137.4

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities - continued

Group	2022 £'m	2021 £'m
Level 2		
Financial liabilities fair value through income statement		
Instruments designated at fair value	764.3	291.3
Financial assets - at fair value through income statement		
	2022 £'m	2021 £'m
Due within one year		
Commodity forward contracts	1,197	47.2
Foreign exchange forward contracts	-	-
Total current derivative financial assets	1,197	47.2
	2022 £'m	2021 £'m
Due after one year		
Commodity forward contracts	100.2	90.2
Interest rate hedging instrument	14.6	-
Total non-current derivative financial assets	114.8	90.2

There are no financial instruments at Level 1 or 3.

Management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value movements in derivative financial instruments through the consolidated income statement reflect the change in fair value of those commodity forward contracts, interest rate swaps and foreign exchange forward contracts that are not designated in hedge relationships. They are nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

Financial liabilities – interest bearing loans and borrowings

Group	2022 £'m	2021 £'m
Interest bearing loans and borrowings:		
Floating rate unsecured redeemable loan notes	261.8	186.8
Bank borrowings	225.6	257.4
Lease liabilities	84.3	80.3
Total interest bearing loans and borrowings	571.7	524.5

Bank borrowings consist of a £275.0m 7 year term loan with fixed repayments and a final repayment of £114.8m at maturity in September 2028. To the extent cash generation exceeds pre-agreed levels the facility is also subject to additional cash sweep repayments, if such repayments are made the final repayment at maturity will be reduced. The interest rate applied to the bank borrowings is variable at compounded SONIA reference rates plus a margin. The principal balance at 31 December 2022 was £231.1m (2021: £264.1m) gross of arrangement fees

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities – continued

The Group has expanded the business team, to include finance and treasury, to manage the transition to the alternate benchmark rates in relation to IBOR reform. Interest rate hedging instruments have been entered into to reduce the Groups exposure to adverse fluctuations in SONIA interest rates.

The carrying value of the bank borrowings differs from their fair value due to measurement at amortised cost using the EIR which reflects transaction costs incurred.

The bank lenders hold a full security package over the CHP and CCGT Plants, key contracts and bank accounts with related financial covenants (all covenant tests have been met during the year).

The redeemable loan notes which were obtained from shareholders are due for repayment in 2025. The interest rate applied to this loan is variable at SONIA plus a margin. During the year the Group issued £75.0m additional loan notes on the same terms. The principal balance at 31 December 2022 was £261.8m (2021: £186.8m).

Guarantees and Letters of Credit amounting to £90.4m (2021: £89.3m) have been made. These obligations lapse on settlement of contractual arrangements.

During the year Vitol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge however at 31 December 2022 the Group had posted cash collateral with Vitol SA of £585m (2021: £60m) which it was able to do using existing cash reserves. Subsequent to the year end, the Group has put in place a new £250m committed revolving credit facility with Vitol SA, part of the group of companies of a shareholder, along with a new revolving credit Facility with existing lenders of £88m. These facilities will enable the Group to continue to manage liquidity risk associated with commodity hedging.

Capital management

Capital includes floating rate unsecured redeemable loan notes and equity attributable to the equity shareholders of the parent. The primary object of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and any requirements of its financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as it deems necessary.

Group

Financial liabilities - at fair value through income statement

	2022 £'m	2021 £'m
Due within one year		
Commodity forward contracts	691.7	230.6
Foreign exchange forward contracts	0.8	-
Total current derivative financial liabilities	692.5	230.6
	2022 £'m	2021 £'m
Due after one year		
Commodity forward contracts	70.4	60.4
Foreign exchange forward contracts	1.4	-
Options	-	0.3
Total non-current derivative financial liabilities	71.8	60.7

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities – continued

The carrying value of these liabilities is the same as their fair value. Financial liabilities through the income statement reflect the change in fair value of those commodity forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

Economic hedging activities and derivative financial instruments

Commodity price risk

As detailed in the Principal risks and uncertainties stated on pages 4 and 5 the Group trades power, natural gas and carbon credits on an ongoing basis as its operations require. The assumptions used in measuring the following sensitivity analysis are a reasonable approximation of possible changes.

The Group estimates that in relation to the commodity forward contracts a movement of 5% in the year end valuation of the portfolio of contracts could impact the income statement by £8.4m (2021: £3.0m).

Foreign currency risk

As detailed in the Principal risks and uncertainties stated on pages 4 and 5 the Group uses foreign exchange forward contracts to manage some of its transaction exposures.

The Group estimates that a movement of 5% in foreign currency would impact the income statement by £4.6m (2021: £0.6m).

Interest rate risk

As detailed in the Principal risks and uncertainties stated on pages 4 and 5 the Group uses interest rate swaps to manage its exposure to movements in interest rates.

The Group estimates a 1% movement in interest rates would impact its income statement by £3.7m (2021: £3.2m).

Financial instruments and cash deposits

As detailed in the Principal risks and uncertainties stated on pages 4 and 5 the Group actively manages investments of surplus funds. The majority of credit risk rests with a related party Vitol SA, a subsidiary of Vitol BV, and is therefore deemed immaterial.

Liquidity risk

As detailed in the Principal risks and uncertainties stated on pages 4 and 5 the Group monitors the risk of a shortage of funds using cash flow forecasts.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

13. Financial assets and financial liabilities – continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments.

Group

Year ended 31 December 2022

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	25.0	546.7	-	571.7
Trade payables and amounts owed to related parties	-	48.5	-	-	-	48.5
Financial instruments at fair value through income statement	-	521.6	170.9	71.8	-	764.3
	-	570.1	195.9	618.5	-	1,384.5

Year ended 31 December 2021

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	24.8	499.7	-	524.5
Trade payables and amounts owed to related parties	-	28.7	-	-	-	28.7
Financial instruments at fair value through income statement	-	204.2	26.4	60.7	-	291.3
	-	232.9	51.2	560.4	-	844.5

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

See above on the Group's policy for derivative financial instruments.

Credit risk for banks and institutions is managed at a Group level, only independently rated parties meeting set criteria are accepted.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. The business provides energy to the UK power market through a related party and trades with adjacent refineries. As the majority of trading activity is with Vitol SA the credit risk exposure is considered to be immaterial. The Group has a good quality customer base through the periods of this report and there have been no bad or doubtful debts through the period. An impairment analysis is performed at each reporting date on an individual basis for clients using the credit loss model. The identified impairment loss was immaterial.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

14. Inventories

Group	2022 £'m	2021 £'m
Consumables	11.0	10.0
Emission allowances	-	203.8
	<u>11.0</u>	<u>213.8</u>

No carbon allowances were purchased as at 31 December 2022 and therefore the inventory balance was nil.

15. Trade and other receivables

Due within one year	Group		Company	
	2022 £'m	2021 £'m	2022 £'m	2021 £'m
Trade debtors	63.5	75.0	-	-
Amounts owed by group undertakings	-	-	44.4	44.2
Amounts owed by related parties (note 23)	798.0	154.2	1.1	-
Accrued income	3.8	1.7	-	-
Prepayments	10.5	17.6	-	-
VAT	2.1	-	-	-
	<u>877.9</u>	<u>248.5</u>	<u>45.5</u>	<u>44.2</u>
Due after more than one year				
Amounts owed by group undertakings	-	-	147.8	147.8
Aggregate amounts	<u>877.9</u>	<u>248.5</u>	<u>193.3</u>	<u>192.0</u>

Current trade debtors and amounts due from group undertakings are non-interest bearing and are generally on terms of 30 to 45 days. As at 31 December 2022, as well as the previous year end, no trade or other receivables were overdue, nor were they impaired or provided for. All trade debtors were received from customers after the statement of financial position date but before the date of approval of these financial statements.

Accrued income of £3.8m at 31 December 2022 was received in full in 2023.

The carrying value of the trade and other receivables is their fair value.

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

16. Called up share capital

Authorised, issued but not fully paid

Number:	Class:	Nominal Value	2022 £	2021 £
1,000	Ordinary	£0.10	<u>100</u>	<u>100</u>

17. Trade and other payables

Due within one year

	Group		Company	
	2022	<i>Restated</i> 2021	2022	2021
	£'m	£'m	£'m	£'m
Trade payables	48.2	28.7	-	-
Amounts owed by group undertakings	-	-	31.2	11.5
Amounts owed by related parties (note 23)	0.3	0.1	-	-
Social security and other taxes	0.6	0.4	-	-
VAT	-	1.1	-	3.7
Accruals	387.2	337.0	-	-
Accrued interest	13.2	-	2.1	-
	<u>449.5</u>	<u>367.3</u>	<u>33.3</u>	<u>15.2</u>

Current trade creditors are non-interest bearing and are normally settled within 30 - 45 day terms. Current other trade payables are non-interest bearing.

Accruals relate mainly to accrued carbon credits for the full financial year. The prior year accruals have been restated to increase by £27.1m. See note 2 Accounting policies, Carbon accounting – change in accounting policy, for details.

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

The carrying value of current trade payables is the same as their fair value.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

18. Bank and other borrowings

Due within one year	Group 2022 £'m	2021 £'m	Company 2022 £'m	2021 £'m
Bank borrowings	21.7	21.6	-	-
Due after more than one year				
Bank borrowings	203.9	235.8	-	-
Floating rate unsecured redeemable loan notes	261.8	186.8	261.8	186.8
	465.7	422.6	261.8	186.8

All borrowings are denominated in pounds sterling and are held at amortised cost.

Note 13 provides information about the Group's loans and borrowing commitments and repayment obligations.

Included within the above loans are amounts falling due as follows:

	2022 £'m	2021 £'m
Within 1 year	21.7	21.6
Between two and five years	349.9	274.6
Later than 5 years	115.8	148.0
	487.4	444.2

19. Leases

The Group leases land occupied by some of its plants, ancillary buildings and car parks.

In the previous financial year the Group entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek. The transaction created right of use assets classified under leasehold land in plant and equipment. A profit of £18.6m was recorded on the sale. The land was sold and leased back on 12 and 15 year terms respectively.

The leases held by the group are due to expire within 1 and 27 years and have been discounted at rates between 3.75% and 5.48%.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

19. Leases - continued

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

	2022 £'m	2021 £'m
Property, plant and equipment:		
Right-of-use assets		
Land	44.4	39.7
Leases liabilities:		
Current	3.3	3.2
Non-current	81.0	77.1
	<u>84.3</u>	<u>80.3</u>

The income statement shows the following amounts relating to leases

	2022 £'m	2021 £'m
Depreciation	2.3	1.2
Interest expense	4.1	0.9
	<u>6.4</u>	<u>2.1</u>

Commitments in relation to finance leases are payable as follows:

	2022 £'m	2021 £'m
Within one year	7.6	7.4
Later than one year but not later than five years	32.4	30.8
Later than five years	<u>83.9</u>	<u>81.2</u>
Minimum lease payments	123.9	119.4
Future finance charges	<u>(39.6)</u>	<u>(39.1)</u>
Lease liability	<u>84.3</u>	<u>80.3</u>

The total cash outflow for leases in 2022 was £7.1m.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

20. Provisions

	Decommissioning £'m
At 1 January 2022	27.9
Revaluation	(3.8)
Unwinding of discount	0.6
At 31 December 2022	<u>24.7</u>

The decommissioning obligation in respect of the CHP and CCGT Plants has been estimated using the present value of future decommissioning costs, inflated using relevant long-term inflation rates and discounted at an applicable risk free interest rate. Management have undertaken an exercise to revalue the provision during the year (including the acquired amounts) reflecting the best available evidence of the expected costs to be incurred in future periods. As in the preceding year, no decommissioning costs are currently expected to be incurred within the next year. The effect of discounting recognised is being unwound over periods from 2023 to 2047.

21. Deferred tax

	2022 £'m	2021 £'m
Group		
At beginning of year	120.7	89.4
Acquisition of subsidiary	-	(1.7)
Charge/(credit) during the year	67.7	33.0
At the end of year	<u>188.4</u>	<u>120.7</u>

The provision for deferred tax is made up as follows:

	2022 £'m	2021 £'m
Group		
Accelerated capital allowances	80.3	77.4
Other timing differences	5.0	16.5
Derivative contracts	103.1	26.8
	<u>188.4</u>	<u>120.7</u>

At 31 December 2022, the Group had unrecognised deferred tax assets of £3.8m relating to capital allowances.

22. Pension commitments

The Group operates a defined contribution scheme. As in the previous year there were no pension commitments unpaid at the statement of financial position date.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

23. Related parties

Note 12 provides information about the Group's structure. The following transactions have been entered into with related parties during the relevant financial year:

VPI Immingham LLP and VPI Power Limited, both indirect subsidiaries, have entered into arm's length energy trading arrangements with Vitol SA, part of the group of companies of a shareholder. Related party energy trading included in turnover is £4,988.6m (2021: £1,635.0m) and cost of goods sold is £4,452.2m (2021: £1,588.9m). In addition to this energy management service agreement charges of £1.1m (2021: £0.6m) incurred by Vitol SA on behalf of VPI Immingham LLP were expensed to operating and administrative expenses.

During the year letters of credit costs and banking costs incurred by Vitol SA on behalf of VPI Immingham LLP, VPI Power Limited, VPI Immingham B Limited, VPI Immingham Energy Park A Limited, VPI Generation Limited and Castlelost Flex-Gen Limited totalling £0.5m (2021: £0.1m) were expensed to operating and administrative expenses.

Included in note 15 is £798.0m (2021: £154.2m) owed from Vitol SA and included in note 17 is £0.3m (2021: £0.1m) owed to Vitol SA and the shareholders of VPI Holding Limited. These are trading balances. Within the £798.0m owed from Vitol SA is a £585.0m collateral posted to cover trading exposures, which was repaid to the Group in January 2023 as exposures had reduced.

The £261.8m (2021: £186.8m) floating rate unsecured redeemable loan notes included in note 18 are held jointly by the shareholders of VPI Holding Limited. Interest payable under these loan notes in the year was £31.7m (2021: £15.2m). At the 31 December 2022 accrued interest of £13.2m was due to shareholders (2021: £nil).

24. Ultimate parent company and controlling party

There is no ultimate parent or controlling party.

VPI Holding Limited is the parent undertaking of the smallest and largest undertaking for which group financial statements will be drawn up for the year ended 31 December 2022, and of which the Company is a member. Copies of the 2022 financial statements are available from 4th Floor, Nova South, 160 Victoria Street, London, England, SW1E 5LB, which is also the registered office address of the smallest and largest undertakings in the group.

25. Guarantees and contingent liabilities

Guarantees and Letters of Credit amounting to £90.4m (2021: £89.3m) have been made. These obligations lapse on settlement of contractual arrangements.

The bank lenders hold a full security package over the CHP and CCGT Plants, key contracts and bank accounts with related financial covenants (all covenant tests have been met during the year).

Contingent consideration of £29.0m is payable if an event is triggered in relation to the Damhead Creek II project within 15 years of the completion date. The likelihood of triggering these events will be dependent on future capacity market auction outcomes and will be considered at each reporting date. This was not considered to be a probable outcome as at 31 December 2022 and no provision for contingent consideration has been recorded.

26. Capital Commitments

Castlelost Flex Gen Limited, a controlled subsidiary acquired during the year, has project development costs €3,951,000, relating to work to be commenced in 2023 and the rest of the Group has £9,300,000 that was contracted for at the Statement of financial position date but not recognised in the financial statements.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2022

27. Events after the Balance Sheet date

On 23 March 2023 dividends of £220.0m were proposed and paid.

In order to manage the increased short term capital requirements around hedging the group entered into two new revolving credit facilities after the year end. On 13 February 2023 the Group entered into a new £88m secured revolving credit facility with existing lenders ranking pari passu with existing senior debt available to September 2028. On 15 May 2023 the Group entered into a £500m unsecured revolving credit facility with Vitol S.A. of which £250m is committed.

On 23 June 2023 the Group completed the acquisition of two battery energy storage sites with total capacity of 200MW, west of Dublin, in Ireland. The group acquired 80% of the shares for a consideration of €99.9m, the remaining 20% is owned by an existing joint venture partner who developed the projects in 2021. The assets play an important role in Ireland in enabling the stable operation of the grid with increasing deployment of renewable generation. There is contingent consideration of 5% of the shareholding to the existing joint venture partner, should certain criteria in the development of further renewable projects be met.

REGISTERED NUMBER: 08484743 (England and Wales)

Annual report and consolidated financial statements
for the year ended 31 December 2023
VPI Holding Limited



VPI Holding Limited

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VPI Holding Limited

Company information
For the year ended 31 December 2023

Directors:

S Hale
J Pikunic

Company Secretary:

E J Essex

Registered office:

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England
SW1E 5LB

Registered number:

08484743 (England and Wales)

Auditor:

Deloitte LLP
Statutory Auditor
1 New Street Square
London
United Kingdom
EC4A 3HQ

VPI Holding Limited

Group strategic report For the year ended 31 December 2023

The Directors present their strategic report for VPI Holding Limited ('the Company') and its subsidiaries ('the Group') for the year ended 31 December 2023.

Cautionary statement

These financial statements contain certain forward-looking statements with respect to the financial condition and business of the Group. 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 Group undertakes no obligation to provide an update in respect of 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 Group works with governments, grid operators and customers to strengthen energy security and grid stability in the rapidly evolving energy landscape. Its principal activities are to develop, build and operate energy generation and storage infrastructure to ensure security of supply and support the transition to Net Zero carbon emissions in its selected territories.

The Group maintained its excellent HSE performance, notably in light of a 38% increase in hours worked (due to the investment in the existing assets and construction programs) and has continued to enhance its cyber compliance and robustness.

In the current and previous financial year, the Group owned and operated assets in the United Kingdom and the Republic of Ireland. In the UK, the Group's operating portfolio comprised a combined heat and power plant at Immingham, North Lincolnshire ('the Immingham CHP Plant'), which generates and supplies steam to the adjacent Humber and Lindsey Oil Refineries and electricity to the Humber Oil Refinery and to the wholesale market (1,218MW). The Group also owns and operates a portfolio of Combined Cycle Gas Turbine power stations ('the CCGT Plants') at Damhead Creek (812MW), Rye House (715MW) and Shoreham (460MW) in the South of England and Blackburn Mill (60MW) in the North of England which supply electricity to the wholesale market. The assets provide firm capacity to the electricity network and critical balancing and ancillary services to the system operator.

The Group invested a total £225.4m of cash generated by way of capital expenditure into both operating assets and construction programs for the financial year, continuing the Group's commitment to invest to support security of supply and the transition to Net Zero. Investments in its UK operating assets, to achieve high levels of reliability at key times when system margins are low, including a steam turbine inspection, life extension work and a gas turbine refurbishment totalling £20.3m at Rye House and a turbine inspection of £11.5m at Damhead Creek.

The Group is also managing an extensive new build program across the UK and Ireland. Projects under construction include a 275MW open cycle gas turbine at Castlelost in Ireland, together with a 299MW open cycle gas turbine and a 50MW peaking asset at Immingham. All projects are progressing safely. The total capital expenditure on these projects for the year ended 31 December 2023 was £180.3m, with £146.8m committed at the balance sheet date for the next financial year. The 50MW peaking asset is on track to commence generation in Q3 2024.

During the year, the Group invested £90.2m in Ireland. On 23 June 2023, there were a number of transactions (described in note 13) resulting in the Group acquiring an 80% investment in Shannonbridge Power Holdings Limited and Lumcloon Power Holdings Limited, and their 100% own subsidiaries. The subsidiaries operate two 100MW Battery Energy Storage Systems ('BESS') constructed to supply DS3 system services to the Irish grid. This portfolio of assets, currently the largest of its kind in Ireland, plays an important role in supporting the stable operation of the Irish grid at a time of increasing deployment of intermittent renewable generation. As part of the same group of transactions, the Group also acquired 75% of the ordinary share capital of Derrycarney Solar Limited, a photovoltaic energy project under development.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Principal activities, business review and future developments (continued)

The Group continues to develop its carbon capture project at the Immingham CHP site, one of its key strategic priorities. The project will capture up to 3.3 million tonnes of CO₂ and is part of the Humber Zero decarbonisation initiative. Key developments in the current and previous financial year include completion of the Industrial Decarbonisation Challenge programme; completion of the Front-End Engineering Design ('FEED'); selection of Worley as the Engineering, Procurement and Construction ('EPC') contractor, and securing a nomination as anchor project from Harbour Energy's Viking Carbon Capture and Storage ('CCS') project. The next step in the development of the process will commence once the Government's Department for Energy Security and Net Zero officially opens the Track 2 Anchor Emitter qualification process. Should Humber Zero successfully qualify as a Track 2 Anchor Emitter, it will be invited to negotiate a Dispatchable Power Agreement with the Low Carbon Contract Company which will underpin the project economics.

The Adjusted* Earnings Before Interest, Tax, Depreciation and Amortisation ('EBITDA') for the year was £800.7m (2022: £643.9m) reflecting the contribution of power sold to hedge generation sales for UK assets for delivery in 2023, especially in the first half of the year. Most of these hedges were put in place in 2022; and the value of those hedges was reported in the Group's 2022 accounts. As power is sold in advance, market risk is translated into operational risk. The reliability of the operational portfolio was strong, with a 2.54% Equivalent Unplanned Outage Factor (2022: 7.96%). This was the result of in-year initiatives and the capital expenditure programme described earlier in this section. In summary, the hedging approach adopted in a volatile market environment, combined with a strong reliability performance, enabled the 2023 results.

During 2023, volatility in the energy markets significantly eased; a trend which has continued in 2024. This resulted in a reduction in the fair market value of the Group's hedging position as at the end of the year, with a loss on derivative financial instruments before tax of £443.0m (2022: profit of £701.2m). The swing from profit to loss relates to the change in relative value of in-the-money hedges placed throughout 2022 for 2023 delivery versus those placed in 2023 for 2024 delivery.

Given the significant change in market conditions, an impairment review of the Group's asset portfolio was carried out as at 31 December 2023. As part of the review, pre-tax cashflows have been considered over the economic life of each CGU ('Cash Generating Unit') based on forecasts and analysis from both internal and external market specialists. This review concluded with an impairment of the Immingham CHP asset (no other Group Assets were considered impaired). An impairment of £71.9m before deferred tax has been recognised in the Consolidated income statement (under exceptional operating expenses) as the carrying amount was higher than the value in use. The value in use assessment of the Immingham CHP resulted in its property, plant and equipment being impaired to £307.5m compared to its pre-impairment carrying value of £379.4m. The £71.9m impairment was allocated to property, plant and equipment within non-current assets. The main factor in the Immingham CGU impairment is its relatively high carrying value compared to its peers and a material decline in gross margin forecasts compared to prior years, reflecting the power market's trend to significantly lower levels of volatility, as mentioned above.

The Group's Consolidated Statement of Financial Position, on pages 23 and 24, shows total assets less current liabilities of £1,279.5m (2022: £1,689.4m). The decrease is primarily due to the reduction in fair value of commodity contracts which had yet to be realised, along with the reduced capital requirements for commodity hedging in the form of cash collateral.

Given the strong performance of the business, cash generated from operating activities after tax paid of £195.1m (2022: £111.2m) was £1,097.4m (2022: £178.4m) as the fair value of forward commodity hedges was realised and the collateral requirements associated with hedging were significantly decreased as a result of lower market volatility.

At an individual entity level, the Company profit for the year was £643.6m (2022: loss of £4.3m). Primarily, this was due to dividend income of £650.0m received from VPI Generation Limited, a wholly owned subsidiary undertaking which is the holding company for the UK trading assets.

*'adjusted' means before unrealised movements on derivative financial instruments.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Events after the balance sheet date

The Group successfully participated in the T-4 Capacity Market auction for the delivery year 2027-28 which concluded on 27 February 2024, with a clearing auction price of £65/kW/year.

On 21 December 2023 Castlelost Flex Gen Limited, a subsidiary, entered into a Facility Agreement with financial institutions to partly refinance its loan from VPI Holding Limited and provide further funding through the construction program. The facility is for up to €167.1m. An initial drawdown against this facility of €109.5m was made on 15 July 2024. The balance of the facility will be drawn over the remaining construction period.

On 15 February 2024 the Company entered into an upstream loan facility agreement with Vitol S.A., an affiliate of the Company, which enables it to place surplus funds on deposit.

In April 2024 the Company received interim dividends from its 80% holding in Irish subsidiaries of €10.96m. The Irish Subsidiaries paid £2.74m in Dividends to the minority interest which holds the other 20% of the shares in these subsidiaries. In July 2024 the Company received further interim dividends from its 80% holding in Irish subsidiaries of €12.0m. The Irish Subsidiaries paid €3.0m in Dividends to the minority interest.

In August 2024 VPI Ireland Operations Limited, a subsidiary, acquired 90% of a BESS development holding company, VPI FlexKraft GmbH, for a consideration of €0.3m. The remaining 10% is owned by a joint venture partner. This marks a further step in the Group's growth strategy, with entry into the German market.

On 23 August 2024, the Company received dividends from group undertakings of £97.0m and subsequently on the same day paid dividends of £100.0m to its shareholders.

In September 2024 as part of a shareholder restructuring exercise, the Company was party to the following transactions:

- Issuing 298,834,651 Ordinary redeemable shares of £0.000,000,1 at par value.
- Converting the total share premium balance of £166.6m to distributable reserves and cancelling 545 of its original £0.10 Ordinary shares.
- Temporary shareholder loan of £298.8m to enable the subsequent redemption of the 298,834,651 Ordinary redeemable shares at a premium of £1 per share.

The remaining share capital in the Company and the existing shareholder loans totalling £261.8m were transferred to VPI Midco Limited as part of the shareholder restructure, making VPI Midco Limited owner of 100% of the share capital in the Company.

VPI Midco Limited subsequently entered into a short term funding arrangement with the Company of £298.8m, to enable repayment of the initial loan received prior to the redemption. This short term funding was capitalised shortly after receipt.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Key performance indicators

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

Group	2023 £'m	2022 £'m	Change %
Adjusted* Gross profit	922.5	742.4	24.3
Adjusted* EBITDA**	800.7	643.9	24.3

*'adjusted' means before unrealised movements on derivative financial instruments.

**EBITDA – 'Earnings Before Interest, Taxation, Depreciation and Amortisation', is a key performance indicator used by the Group. The Group also monitors a number of health & safety and environmental KPIs alongside the financial performance indicators.

EBITDA is stated before any impairments.

All KPIs are stated prior to movements in derivative financial instruments, which is referred to as 'adjusted' performance as the business measures the performance without reference to the derivative movements. The movement on derivatives is included to arrive at the statutory reported results shown in the income statement.

Please refer to the principal activities, business review and future developments section of this report for an explanation of the change in the performance of the Group.

The Group has many non-financial performance indicators in place measuring health, safety and environment, which includes lost time accidents, environmental breaches and any high potential near misses. Safety of personnel, coupled with a responsible, pro-active approach to managing the environment is core to the Group's business.

Principal risks and uncertainties

The principal risks and uncertainties facing the Group are those that impact the continuing business and profitability of the Immingham CHP Plant and CCGT Plants and their related contracts.

Health, safety and environment

Given the nature of the Group's activities, the health and safety of all our employees, contractors and the public is of paramount importance. The Group actively develops 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.

Climate change

The Group faces vulnerabilities from physical risks owing to the increased frequency and severity of extreme weather conditions caused by climate change. For example, the combination of stronger storms and rising sea levels have the potential to damage or flood the Group's assets. The Group considers these risks to the business as low. The Group maintains a Climate Change Risk Register to assess the impacts against 2018 climate projections and to identify mitigation measures to minimise these risks. The Group's environmental team participate in industrial forums and work alongside regulatory bodies to monitor for updates/changes in regulation or guidance on the subject of Climate Change. There is also the risk that the Group's strategy, investments or operations are deemed to have an undesirable future impact on the natural environment and international targets to tackle climate change. The Group also has a dedicated regulatory team who work to mitigate this risk and align the Group's operations and strategy with such targets. As described later in this report, the Board is committed to being part of the pathway to Net Zero in the countries where it operates which is reflected in the investment strategy and its ongoing commitment to the Humber Zero project.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

Energy and commodity price risk

The Group operates primarily in the UK energy market, and as such, is exposed to fluctuations in wholesale energy prices both in the short and long term, which are driven by supply and demand, as these impact both the value of electricity produced and the cost of fuel required to generate. This exposure is managed through an active trading strategy to forward hedge plant output at profitable levels and to capture extrinsic value from short term price volatility. In the longer term the baseload spark spread (the differential between the power price and the cost of gas required to produce the power) is expected to decline as more low marginal cost renewables are added to the system. However, there will continue to be a need for gas-fired assets to provide power when renewable generation is low which is expected to result in higher capacity payments, thereby reducing overall exposure to commodity pricing.

The Directors consider that the Group's exposure to market fluctuations, which are mitigated by the use of certain derivative contracts, remains at an acceptable level.

Plant operating risk

Failure of an essential component of the Immingham CHP, CCGT and BESS Plants may result in the loss of generation through a plant outage or reduced output capacity. The Group manages this risk through continued investment in planned maintenance to ensure availability of the assets is top quartile and the assets are available at times of greatest demand when they are needed by the system the most. The Group maintains third party insurance cover to mitigate against significant operating risks.

Project risk

Management identifies at the start, throughout and to the end of construction of a project; the key risks that might lead to the failure of delivering the project on time, at cost or to the needed quality or safety requirements. Risks are Red, Amber and Green ('RAG') rated and appropriate mitigations put in place. These are monitored, assessed, and revisited at regular risk workshops by the projects team (which is facilitated by the Owners Engineer) and reported on at the monthly project board steerco meetings.

Political and regulatory risk

The Group operates in markets that have a high degree of regulatory, legislative and political intervention and uncertainty. The Group has in place robust compliance procedures which are focused on ensuring that all business conducted by the Group complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws. The UK Government is committed to a path towards a Net Zero energy system. The Group is committed to the decarbonisation of its assets which will be dependent on Government policy.

Cyber security risk

The Group is a target for cyber criminals as an operator of critical national infrastructure. The Group Network & Information Systems ('NIS') function ensures that the right processes and systems are in place to protect against cyber threats and ensures that employees receive regular training to help them prevent a cyber attack.

Supply chain risk

The Group is exposed to global supply chains in relation to its ongoing capital investment programmes which have been disrupted recently due to the geopolitical environment. The Group identifies potential risks to parts, supplies and contracts and takes steps to mitigate the effects, such as increasing levels of strategic supplies.

Foreign currency risk

The Group is exposed to foreign currency exchange rate risk resulting from executing transactions denominated in currencies other than pound sterling. This exposure has increased over the last year with the addition of a number of foreign subsidiaries to the Group. The Group makes use of forward exchange rate contracts and options to manage the risk of foreign exchange.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group 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.

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Principal risks and uncertainties (continued)

Interest rate risk

The Group is exposed to interest rate risk resulting from the Group's loan and banking arrangements. The interest charged on Group loans is linked to SONIA, and therefore, it is exposed to the movements in the SONIA rates. The Group uses interest rate swaps to reduce its exposure to adverse fluctuations in SONIA interest rates.

Liquidity

Liquidity risk refers to the risk that the Group will encounter in realising assets or otherwise raising funds to meet commitments. The Group has a number of credit facilities in place with related and external parties that it is able to draw upon, as well as an upstream loan facility which enables it to place surplus funds on deposit with an affiliate which is repayable within 3 business days.

Credit facilities

Facility amount	Date entered into	Type	Counterparty	Balance at 31 Dec 2023
*£275.0m (2022: 275m)	23/09/2021	Credit facility	Commercial banks	£198.1m (2022: £231.1m)
£88.0m (2022: £nil)	13/02/2023	Credit facility	Commercial banks	£nil (2022: £nil)
**£250.0m (2022: £nil)	01/01/2023	Committed revolving credit facility	Vitol S.A.	£nil
£250.0m (2022: £nil)	01/01/2023	Uncommitted revolving credit facility	Vitol S.A.	£nil

*The amount drawn at the date the agreement was entered into was £250m, subsequently increased to £275m, with £76.9m being repaid to 31 December 2023.

** This was reduced to a £100m facility after the balance sheet date.

Upstream loan

£181.4m (2022: £nil)	13/02/2023	Upstream loan	Vitol S.A.	£181.4m (2022: £nil)
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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 Group have a duty to act as they consider most likely to promote the success of the Group 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 Group operates, the desirability of maintaining a reputation for high standards of business conduct and the need to act fairly between members of the Group.

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 Group's operations. The Group's forecasts are prepared using the Group's proprietary long-term supply and demand model with input from leading energy sector market consultants and are carefully considered by the Group'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 Directors believe that achieving Net Zero is fundamental to our future and that getting there means embracing a new energy reality, balancing vision with practical action to find solutions that work. The Board is committed to being part of the pathway to Net Zero in the countries where it operates, through investing in the reliability and efficiency of the existing flexible generation portfolio along with investing in new capacity to ensure security of supply whilst the system is in transition, but also by investing in the decarbonisation of its existing fleet to bring dispatchable low carbon power onto the system.

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

VPI Holding Limited

Group strategic report

For the year ended 31 December 2023 (continued)

Employee interest and engagement

The Group'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 enables open communication throughout the Group at all times and an open door for new ideas and ways of working. Employees are further updated on Group matters through regular townhalls, newsletters and face to face meetings.

Our dialogue with employees includes regular communication about the Group's strategy, plans and performance. During 2023, communications included updates about progress against the Group-wide scorecard, which includes KPIs in relation to people, safety and compliance, reliability, profitability and business growth. Annual bonuses for a large number of employees are linked to the scorecard performance, ensuring that employee reward and Group performance are aligned.

Some employees are represented by a trade union. We value regular engagement with trade union representatives and see this as important now that the UK is transitioning towards a decarbonised economy. The Group'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 Group carries out rigorous, risk based Know Your Customer (KYC) procedures on its partners and counterparts, and monitors these on an ongoing basis, as appropriate.

The Group is a leading partner in a large-scale decarbonisation program, Humber Zero, working with its neighbouring industries and customers and the UK Government, to create a carbon neutral industrial hub in the Humber region.

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 Group has in place robust compliance procedures which are focused on ensuring that all business conducted by the Group complies with the applicable legislative and regulatory regime, including international sanctions and antibribery and corruption laws.

The Group 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 Group demands a 'safety first' culture. As a portfolio of power plants, safety is at the core of the business and great care is taken to ensure the safety of everyone on site, and to protect the surrounding environment. The Directors appreciate the risks involved in the energy sector and take their responsibilities extremely seriously. The Group has strong HSE policies in place and complies with international HSE standards and relevant legislation. The Group 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:



J Pikunic – Director

18 September 2024

Date:

VPI Holding Limited

Report of the Directors For the year ended 31 December 2023

The Directors present their Annual Report with the audited financial statements of the Company and the Group for the year ended 31 December 2023.

Dividends

The Directors proposed and paid dividends for the year ended 31 December 2023 of £440.0m during the year (2022: £75.0m).

Directors

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

S Hale

R D Hardy (resigned 4 September 2024)

M Longstreth (resigned 4 September 2024)

J Pikunic (appointed 4 September 2024)

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.

Principal activities and future developments

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

Streamlined Energy and Carbon Reporting

The Group has an Environmental Management System externally certified to ISO 14001, 2015.

The Immingham CHP Plant comprises of three Large Combustion Plants as defined by articles 28 and 29 of the Industrial Emissions Directive and has a total output of 1,218 MW. In 2023, 165,889.9 MWh (2022: 180,280.3 MWh) of power consumed was generated on site, with 952.21 MWh (2022: 1,225.38 MWh) of additional energy imported from National Grid. The total amount of natural gas and Refinery Off Gas used for generation activities was 36,019.01 TJ LHV (2022: 40,618.87 TJ). The Immingham CHP Plant is gas fired and therefore emits CO₂ from the generation process. The CO₂ emitted for 2022, as verified under the EU Emissions Trading Scheme, was 2,042,422.07 tCO₂(e) (2022: 2,297,644 tCO₂(e)). This figure includes emissions for transport used on site. Intensity ratio in 2023 was 0.43 Tonnes of CO₂ per MWh(e) including steam production converted to power at 0.292 MWh(e) per tonne (2022: 0.43 MWh(e) per tonne).

The CCGT power stations have a total output of 2,047 MW. In 2023, 105,881.64 MWh (2022: 123,862.0 MWh) of power consumed was generated on site with 61,510.0 MWh (2022: 32,564.92 MWh) of additional energy imported from National Grid. The total amount of natural gas used for generation activities was 26,299.99 TJ LHV in 2023 (2022: 38,255.53 TJ LHV). The CCGT power stations are gas fired and therefore emit CO₂ from the generation process. The CO₂ emitted for 2023, as verified under the EU Emissions Trading Scheme, was 1,485,323.09 tCO₂(e), (2022: 2,144,195 tCO₂(e)), this figure includes emissions from transport used on site. Intensity ratio in 2023 was 0.37 Tonnes of CO₂ per MWh (2022: 0.45 MWh(e) per tonne).

The intensity ratio for the Group in 2023 was 0.40 Tonnes of CO₂ per MWh(e) including steam production converted to power at 0.292 MWh(e) per tonne (2022: 0.44 MWh(e) per tonne).

Employees and employee engagement statement

The Group 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. Employee interest and engagement practices are further outlined in the Strategic report, on page 6.

The Group 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 Group provides equal opportunities for employment, training and development, having regard to particular aptitudes and abilities.

VPI Holding Limited

Report of the Directors

For the year ended 31 December 2023 (continued)

Business relationships with suppliers, customers and other stakeholders

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

Going concern

The Group's underlying cash flow is strong with net cash inflows of £520.0m and £109.5m pre-dividend payments in the current and prior financial year respectively. Please also refer to the liquidity section of the Strategic report for further information of funds available to the Group.

The Group have prepared forecasts for the next 12 months to September 2025 including its capital investment program and considering the principal risks and uncertainties on pages 5 to 7, these forecasts were also subject to stress testing on cash requirements to ensure that the Group holds adequate resources to operate in the current economic climate for the foreseeable future. To further support the business the Group, as above, has access to a series of liquidity lines including substantial undrawn revolving credit facilities.

Therefore, the Directors conclude there are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern and hold a reasonable expectation that the Group has the ability to continue to meet its obligations.

Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Financial instruments

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency, interest rate and commodity price risks. Such derivative financial instruments are initially recognised at fair value on the date on which such a derivative contract is entered into and are subsequently re-assessed at their fair value at each reporting period end.

Derivative financial instruments are used by the Group to manage exposure to the principal risks arising as set out within the Strategic Report on pages 5 to 7. This section of the Strategic report also considers the Group's exposure to other types of risk and how it seeks to mitigate these risks.

Events after the Balance Sheet date

Events after the Balance Sheet date are disclosed in the Strategic Report on page 4.

Disclosure of information to auditor

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

Auditor

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

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



J Pikunic – Director
Date: 18 September 2024

VPI Holding Limited

Statement of Directors' responsibilities For the year ended 31 December 2023

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 group financial statements in accordance with United Kingdom adopted international accounting standards. The financial statements also comply with International Financial Reporting Standards (IFRSs) as issued by the IASB. The Directors have chosen to prepare the parent company 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 the parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements of the financial reporting framework are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

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.

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of VPI Holding Ltd (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2023 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated statement of cash flows; and
- the related notes 1 to 28.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent 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 as applied to listed entities 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.

Independent auditor's report to the members of VPI Holding Ltd (continued)

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: Valuation of assets in VPI Immingham LLP Accounting for the acquisition of Lumcloon Power Holdings Limited and Shannonbridge Power Holdings Limited Revenue recognition in relation to the cut off assertion Within this report, key audit matters are identified as follows: ⓘ Newly identified ⏪ Similar level of risk
Materiality	The materiality that we used for the group financial statements was £16.1m which was determined on the basis of the three year average group EBITDA before unrealised movements on derivative financial instruments 'Adjusted EBITDA'). Materiality represents 2% of the current year group Adjusted EBITDA.
Scoping	Audit work to respond to the risks of material misstatement was performed directly by the audit engagement team.
Significant changes in our approach	The group has purchased two new entities in the year, Lumcloon Power Holdings Limited and Shannonbridge Power Holdings Limited, which hold battery storage assets. These are also power assets and as a result, there are no significant changes in audit approach to testing of operations across the group in the current year, other than the audit of the acquisition accounting for which a new key audit matter has been identified. We have also identified a new key audit matter in respect of the valuation of assets at the Immingham CHP Plant, given the impairment recognised in the year.

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.

Our evaluation of the Directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included:

- assessing the assumptions used in the Group's Business Plan, including performing sensitivity analysis in relation to assumptions for future commodity prices and risk of plant outages;
- assessing the financing arrangements in place;
- assessing the impact of the material acquisition in the year;
- assessing the appropriateness of the disclosures made in the financial statements; and
- reviewing the amount of headroom in the forecasts.

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 group's and parent 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.

Independent auditor's report to the members of VPI Holding Ltd (continued)

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statement of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of assets at the Immingham CHP Plant

Key audit matter description	During the current year, the group recognised an impairment charge on one of its cash generating units (Immingham CHP Plant) of £71.9m. Impairment indicators were identified for the valuation of the Immingham CHP plant with the main factor being its relatively high carrying value compared to its peers and a material decline in gross margin forecasts compared to prior years, reflecting the power market's trend to significantly lower levels of volatility. The group's impairment assessment of this plant involved value in use calculations which required estimates, including significant assumptions regarding future cash flows and discount rates. The future cash flow projections are based on a number of variables including margins, future commodity prices, supply volumes, capacity market clearing prices, climate related risks and macro-economic conditions. An external expert in the power market was used to provide third party analysis which was incorporated in the value in use calculations. We pinpointed our significant risk and risk of fraud at the assumptions underpinning the generation volumes and discount rate. Further detail of the key judgements and estimation uncertainties and the sensitivities are disclosed in note 2 and note 11.
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Independent auditor's report to the members of VPI Holding Ltd (continued)

How the scope of our audit responded to the key audit matter	We obtained an understanding of relevant controls related to management's impairment assessment. We tested the mechanical accuracy of the impairment model and the methodology applied for consistency with the requirements of IAS 36. We performed the following procedures on management's cash flow projections: • We assessed the accuracy of management's cash flow projections by benchmarking the forecast commodity prices to external forecaster power curves; • We held meetings with management's external expert who prepared the long term revenue forecasts to understand the methodology used; • We evaluated the competence, capabilities and objectivity of management's external expert; • We engaged our industry specialists to challenge management's external expert and the forecast cash flows with respect to the generation • We agreed the fixed elements of the future revenue streams to signed contracts; • We compared historical forecasts with actual cash flows; • We assessed whether forecast cash flows were consistent with Board approved forecasts; and • We also performed sensitivity analysis as part of our overall evaluation of forecast cash flows. In relation to climate risks, we evaluated whether cash flow projections and related assumptions, such as future commodity prices, incorporate the reasonably expected impact of climate change and associated policy changes. With the assistance of our valuation specialists, we evaluated the reasonableness of management's discount rates. We benchmarked the discount rate to comparable companies and considered the underlying assumptions based on our knowledge of the group and its industry. We also assessed the financial statements disclosures in relation to the impairment assessments performed.
Key observations	Based on our work performed, we concluded that the valuation of the assets at the Immingham CHP Plant is appropriate. We also conclude that the related disclosures are appropriate.

Independent auditor's report to the members of VPI Holding Ltd (continued)

Accounting for the acquisition of Lumcloon Power Limited and Shannonbridge Power Limited

Key audit matter description	On 23 June 2023, the Group acquired 80% of the share capital of Lumcloon Power Holdings Limited and Shannonbridge Power Holdings Limited for a total consideration of £90.2m. This consideration also included a 75% holding in Derrycarney Solar Limited. In accordance with IFRS 3 'Business Combinations' management has recognised the identified assets (including property, plant and equipment, and intangible assets) and liabilities at their acquisition date fair values. Management engaged third party experts to perform the Purchase Price Allocation (PPA) exercise. Further details are disclosed within note 3. We have identified a key audit matter in relation to the assumptions applied in respect of the PPA exercise, identifying in particular the judgement related to the fair value of the property, plant and equipment acquired and the value of the customer contracts recognised as intangible assets.
How the scope of our audit responded to the key audit matter	We tested the acquisition balance sheet and initial fair value adjustments of the acquired business including assessing the identification and valuation of property plant and equipment, the recognition of intangible assets and the fair value of liabilities. We evaluated the competence, capabilities and objectivity of the third party experts engaged by management to perform the PPA exercise. We evaluated the valuation work undertaken to support the acquisition and whether contradictory evidence to the valuations adopted existed. We also involved our internal valuation specialists in assessing the third party reports and identifying areas for particular focus.
Key observations	Based on the work performed we are satisfied that the acquired assets and liabilities have been appropriately accounted for in accordance with IFRS 3 'Business Combinations'.

Revenue recognition in relation to the cut off assertion

Key audit matter description	Revenue for the Group is stated in the consolidated income statement at £3,969.2m as at 31 December 2023 (2022: £7,031.0m). Further details are included within note 4 of the financial statements. Revenues associated with sales of power, steam and water are recognised when title passes to the customer. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service. Material invoices are raised around year end and if these were recorded in the incorrect accounting period that would lead to a material misstatement. Therefore there is a cut-off risk and a fraud risk in relation to sales being recognised within the incorrect period around the reporting date. Further details regarding the group's revenue recognition policy can be found within note 2 to the financial statements.
How the scope of our audit responded to the key audit matter	To assess the appropriateness of revenue recognition in relation to cut off, we evaluated and sample tested revenue transactions one month either side of the reporting date and assessed whether they had been included in the correct accounting period. We obtained an understanding of the revenue process and the relevant controls related to revenue cut off.
Key observations	Based on the work performed we are satisfied that the revenue transactions have been recorded in the correct accounting periods.

Independent auditor's report to the members of VPI Holding Ltd (continued)

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£16.1m (2022: £10.4m)	£6.7m (2022: £3.6m)
Basis for determining materiality	The materiality that we used for the group was determined on the basis of the three year average group Adjusted EBITDA in line with previous periods. Materiality represents 2% of the current year group Adjusted EBITDA (2022: 1.6% of the group Adjusted EBITDA). Adjusted EBITDA is defined as 'Earnings before interest, taxation, depreciation and amortisation' before unrealised movements on derivative financial instruments.	3% of net assets (2022: 3% of net assets) capped at 60% (2022: 50%) of the performance materiality identified for the group.
Rationale for the benchmark applied	When determining materiality, we have considered the size and scale of the business and the nature of its operations. We have also considered which benchmarks would be of relevance to the users of the financial statements, including management. Adjusted EBITDA has been selected as an appropriate measure as this is the key measure on which the performance of the business is assessed and the attention of the users of the entity's financial statements tend to be focused.	When determining materiality we note the primary activity of this company is to hold investments in other group companies and fund other entities through intercompany loans. Net assets have therefore been determined as an appropriate benchmark for determining materiality.

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	Group financial statements	Parent company financial statements
Performance materiality	70% (2022: 70%) of group materiality	70% (2022: 70%) of parent company materiality
Basis and rationale for determining materiality	In determining performance materiality, we considered the following factors: • The low level of historical uncorrected misstatements within the consolidated financial statements; and • Our assessment of the control environment.	

VPI Holding Limited

Independent auditor's report to the members of VPI Holding Ltd (continued)

Error reporting threshold

We agreed with the Directors that we would report to them all audit differences in excess of £0.8m (2022: £0.5m), as well as difference below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Identification and scoping of components

The group parent company is VPI Holding Limited which holds investments in the other group companies. The main trading companies are VPI Immingham LLP, VPI Power Limited, Lumcloon Power Limited and Shannonbridge Power Limited. There are other subsidiary companies which are holding companies and developing power plants.

All components are in scope and are audited at the lower of their statutory and component materiality ranging from £11.0m to £0.05m (2022: £6.8m to £0.05m). Audit work to respond to the risks of material misstatement was performed directly by the group audit engagement team.

Our consideration of the control environment.

We did not plan to adopt a controls reliance approach across our audit. With the involvement of our IT specialists we obtained an understanding and assessed the relevant general IT controls. We also obtained an understanding of relevant controls in the revenue and financial reporting processes.

Our consideration of the climate-related risks.

Management has considered transition and physical risks when factoring in climate change as part of their risk assessment process while considering the principal risks and uncertainties facing the Group, as explained in the group strategic report on page 4. We have:

- assessed how the Directors considered climate change in their assessment of the impact on the financial statements, including the going concern assumption, based on our understanding of the business environment and by benchmarking relevant assumptions with market data.
- assessed how the impact of climate change has been considered within individual financial statement lines which are supported by forward looking forecasts and estimates; and
- evaluated the appropriateness of disclosures included in the financial statements and have read the climate risk disclosure included throughout the strategic report section of the annual report to consider whether they are materially consistent with the financial statements and our knowledge obtained in the audit.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of Directors

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

In preparing the financial statements, the directors are responsible for assessing the group's and the parent 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 group or the parent 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.

Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for Directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management and the Directors about their own identification and assessment of the risk of irregularities, including those that are specific to the group's sector;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedure relating to:
 - identifying, evaluating and complying with laws and regulations and whether they were aware of any instance of non-compliance;
 - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
 - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement and relevant internal specialists, including valuations, IT and financial instrument specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

Independent auditor's report to the members of VPI Holding Ltd (continued)

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: valuation of assets at the Immingham CHP Plant and revenue recognition in relation to the cut off assertion. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulation established by regulators in the key markets in which the Group operates, including the Office of Gas and Electricity Markets (Ofgem).

Audit response to risks identified

As a result of performing the above, we identified valuation of assets at the Immingham CHP Plant and revenue recognition in relation to the cut off assertion as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains these matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

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

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the directors concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance and reviewing correspondence with HMRC; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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 group and the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Independent auditor's report to the members of VPI Holding Ltd (continued)

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.

We have nothing to report in respect of this matter.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Marianne Milnes

Marianne Milnes
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
18 September 2024

VPI Holding Limited

Consolidated income statement For the year ended 31 December 2023

	Notes	Year ended 31 December 2023			Year ended 31 December 2022		
		Adjusted Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m	Adjusted Performance * £'m	Derivative financial Instruments £'m	Statutory Result £'m
Revenue	4	4,929.9	(960.7)	3,969.2	5,594.8	1,436.2	7,031.0
Cost of sales		(4,007.4)	520.2	(3,487.2)	(4,852.4)	(748.9)	(5,601.3)
Gross profit/(loss)		922.5	(440.5)	482.0	742.4	687.3	1,429.7
Operating and administrative expenses		(121.8)	2.8	(119.0)	(98.5)	(1.8)	(100.3)
EBITDA**		800.7	(437.7)	363.0	643.9	685.5	1,329.4
Depreciation and amortisation		(58.5)	-	(58.5)	(44.4)	-	(44.4)
Exceptional operating costs	7	(74.2)	-	(74.2)	-	-	-
Acquisition related costs	3	(2.0)	-	(2.0)	(0.3)	-	(0.3)
Operating profit/(loss)	7	666.0	(437.7)	228.3	599.2	685.5	1,284.7
Interest receivable and similar income	6	34.4	-	34.4	5.0	15.7	20.7
Interest payable and similar expenses	6	(60.6)	(5.3)	(65.9)	(48.7)	-	(48.7)
Profit/(loss) before tax		639.8	(443.0)	196.8	555.5	701.2	1,256.7
Tax	8	(143.4)	103.1	(40.3)	(109.8)	(129.5)	(239.3)
Profit/(loss) for the financial year		496.4	(339.9)	156.5	445.7	571.7	1,017.4
Other comprehensive income							
Foreign exchange differences on translation of foreign operations***		1.2	-	1.2	-	-	-
Total comprehensive income		497.6	(339.9)	157.7	445.7	571.7	1,017.4
Total comprehensive income is attributable to:							
Owners of VPI Holding Limited		494.6	(339.9)	154.7	445.7	571.7	1,017.4
Non-controlling interests		3.0	-	3.0	-	-	-
		497.6	(339.9)	157.7	445.7	571.7	1,017.4

All amounts relate to continuing operations in both current and preceding years.

* Adjusted Performance is before unrealised movements on derivative financial instruments.

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

***Items in other comprehensive income will not be subsequently reclassified to the income statement and are shown net of tax.

VPI Holding Limited (Registered number: 08484743)

**Consolidated statement of financial position
As at 31 December 2023**

	Notes	2023 £'m	2022 £'m
Assets			
Non-current assets			
Property, plant and equipment	11	809.0	622.9
Intangible assets	12	39.2	-
Derivative financial instruments	14	92.5	114.8
		<u>940.7</u>	<u>737.7</u>
Current assets			
Inventories	15	242.1	11.0
Trade and other receivables	16	256.2	877.9
Derivative financial instruments	14	276.1	1,197.0
Cash and cash equivalents		173.0	93.0
		<u>947.4</u>	<u>2,178.9</u>
Total assets		<u>1,888.1</u>	<u>2,916.6</u>
Equity			
Shareholders' equity			
Called up share capital		-	-
Share premium		166.6	166.6
Retained earnings		404.9	691.2
Foreign currency translation reserve		1.0	-
		<u>572.5</u>	<u>857.8</u>
Capital and reserves attributable to owners of VPI Holding Limited		572.5	857.8
Non-controlling interests		14.8	-
Total equity		<u>587.3</u>	<u>857.8</u>
Liabilities			
Non-current liabilities			
Bank and other borrowings	19	433.2	465.7
Derivative financial instruments	14	51.0	71.8
Deferred tax	22	100.1	188.4
Lease liabilities	20	79.3	81.0
Provisions	21	28.6	24.7
		<u>692.2</u>	<u>831.6</u>

VPI Holding Limited (Registered number: 08484743)**Consolidated statement of financial position - continued**
As at 31 December 2023

	Notes	2023 £'m	2022 £'m
Current liabilities			
Trade and other payables	18	364.9	449.5
Bank and other borrowings	19	21.6	21.7
Corporation tax		5.4	60.2
Derivative financial instruments	14	213.1	692.5
Lease liabilities	20	3.6	3.3
		<u>608.6</u>	<u>1,227.2</u>
Total liabilities		<u>1,300.8</u>	<u>2,058.8</u>
Total equity and liabilities		<u><u>1,888.1</u></u>	<u><u>2,916.6</u></u>

The consolidated financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on...18 September 2024. They were signed on its behalf by:



J Pikunic – Director

VPI Holding Limited (Registered number: 08484743)**Company statement of financial position
As at 31 December 2023**

	Notes	2023 £'m	2022 £'m
Assets			
Non-current assets			
Trade and other receivables	16	2.5	147.8
Investments	13	500.6	408.4
		<u>503.1</u>	<u>556.2</u>
Current assets			
Trade and other receivables	16	238.3	45.5
Cash and cash equivalents		54.2	12.3
		<u>292.5</u>	<u>57.8</u>
Total assets		<u>795.6</u>	<u>614.0</u>
Equity			
Shareholders' equity			
Called up share capital		-	-
Share premium		166.6	166.6
Retained earnings		357.1	152.3
Total equity		<u>523.7</u>	<u>318.9</u>
Liabilities			
Non-current liabilities			
Borrowings	19	261.8	261.8
Current liabilities			
Trade and other payables	18	10.1	33.3
Total liabilities		<u>271.9</u>	<u>295.1</u>
Total equity and liabilities		<u>795.6</u>	<u>614.0</u>

The Company reported a profit for the year ended 31 December 2023 of £643.6m (2022: loss of £4.3m).

The financial statements of VPI Holding Limited (registered number: 08484743) were approved by the Board of Directors and authorised for issue on 18 September 2024. They were signed on its behalf by:



J Pikunic – Director

VPI Holding Limited

Consolidated statement of changes in equity For the year ended 31 December 2023

	Called up share capital	Retained Earnings	Share premium	Foreign currency translation reserve	Total	Non- controlling interest	Total equity
	£'m	£'m	£'m	£'m	£'m	£'m	£'m
Balance at 1 January 2022	-	(326.2)	241.6	-	(84.6)	-	(84.6)
Comprehensive income for the year							
Profit for the financial year	-	1,017.4	-	-	1,017.4	-	1,017.4
Transactions with owners, recognised directly in equity							
Dividends (note 10)	-	(75.0)	-	-	(75.0)	-	(75.0)
Reduction of share premium	-	75.0	(75.0)	-	-	-	-
Balance at 31 December 2022	-	691.2	166.6	-	857.8	-	857.8
Comprehensive income for the year							
Profit for the financial year	-	153.7	-	-	153.7	2.8	156.5
Translation movements on foreign subsidiaries	-	-	-	1.2	1.2	-	1.2
Translation movements on foreign subsidiaries – non-controlling interest	-	-	-	(0.2)	(0.2)	0.2	-
Transactions with owners, recognised directly in equity							
Dividends (note 10)	-	(440.0)	-	-	(440.0)	-	(440.0)
Changes in ownership interests in subsidiaries that do not result in a loss of control							
Non-controlling interests on acquisition of subsidiary	-	-	-	-	-	11.8	11.8
Balance at 31 December 2023	-	404.9	166.6	1.0	572.5	14.8	587.3

VPI Holding Limited

Company statement of changes in equity For the year ended 31 December 2023

	Called up share capital £'m	Retained earnings £'m	Share premium £'m	Total equity £'m
Balance at 1 January 2022	-	156.6	241.6	398.2
Comprehensive income for the year				
Loss for the financial year	-	(4.3)	-	(4.3)
Transactions with owners, recognised directly in equity				
Dividends (note 10)	-	(75.0)	-	(75.0)
Reduction of share premium	-	75.0	(75.0)	-
Balance at 31 December 2022	-	152.3	166.6	318.9
Comprehensive income for the year				
Profit for the financial year	-	643.6	-	643.6
Other comprehensive income	-	1.2	-	1.2
Transactions with owners, recognised directly in equity				
Dividends (note 10)	-	(440.0)	-	(440.0)
Balance at 31 December 2023	-	357.1	166.6	523.7

VPI Holding Limited

Consolidated statement of cash flows For the year ended 31 December 2023

	Notes	2023 £'m	2022 £'m
Cash flows from operating activities			
Cash generated from operations	(i)	1,292.5	289.6
Tax paid		(195.1)	(111.2)
Net cash from operating activities		<u>1,097.4</u>	<u>178.4</u>
Cash flows from investing activities			
Purchase of subsidiary	3	(90.2)	-
Cash acquired with subsidiary	3	5.2	-
Loan advanced to related party (note 24)	16	(181.4)	-
Purchase of tangible fixed assets		(225.4)	(76.6)
Interest received		30.3	0.9
Net cash used in investing activities		<u>(461.5)</u>	<u>(75.7)</u>
Cash flows from financing activities			
Interest paid		(63.5)	(28.1)
Proceeds from issue of borrowings	(ii)	-	75.0
Repayment of borrowings	(ii)	(43.7)	(33.0)
Principal elements of lease payments	(ii)	(7.6)	(7.1)
Loan arrangement fees paid	10	(1.1)	-
Equity dividends paid		(440.0)	(75.0)
Net cash used in financing activities		<u>(555.9)</u>	<u>(68.2)</u>
Increase in cash and cash equivalents		<u>80.0</u>	<u>34.5</u>
Cash and cash equivalents at beginning of year		<u>93.0</u>	<u>58.5</u>
Cash and cash equivalents at end of year		<u>173.0</u>	<u>93.0</u>

Cash and cash equivalents is comprised of cash in the bank.

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2023

(i) Reconciliation of profit before income tax to cash generated from operations

	Notes	2023 £'m	2022 £'m
Group			
Profit before income tax		196.8	1,256.7
Depreciation and amortisation charges	11,12	58.5	44.4
Impairment losses		74.2	-
Fair value losses/(gains) on derivative financial instruments		443.0	(701.2)
Net exchange differences		0.8	-
Finance costs	6	60.6	48.7
Finance income	6	(34.4)	(5.0)
		<u>799.5</u>	<u>643.6</u>
(Increase)/decrease in inventories		(233.3)	202.9
Decrease/(increase) in trade and other receivables		807.9	(627.5)
(Decrease)/increase in trade and other payables		(81.6)	70.6
		<u>1,292.5</u>	<u>289.6</u>

During the year Vitol SA, a subsidiary of the one of the Group's shareholders, extended credit to the Group to enable it to actively hedge. However, these facilities were not drawn down during the year. At 31 December 2023, under the terms of the energy management services agreement with Vitol SA, the Group had posted cash collateral to support margining on commodities trading of £56.6m (2022: £585.0m) which it was able to do using existing cash reserves.

(ii) Changes in liabilities arising from financing activities

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	1 January 2023 £'m	Additions £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2023 £'m
Loans from related parties	261.8	-	-	-	-	261.8
Loans acquired with subsidiaries	-	10.7	-	-	(10.7)	-
Bank loans	231.1	-	-	-	(33.0)	198.1
Capitalised borrowing costs	(5.5)	-	1.5	-	(1.1)	(5.1)
Leases	84.3	1.9	-	4.3	(7.6)	82.9
	<u>571.7</u>	<u>12.6</u>	<u>1.5</u>	<u>4.3</u>	<u>(52.4)</u>	<u>537.7</u>

VPI Holding Limited

Notes to the consolidated statement of cash flows For the year ended 31 December 2023

(ii) Changes in liabilities arising from financing activities (continued)

	1 January 2022 £'m	Additions £'m	Amortisation £'m	Interest £'m	Cash movement £'m	31 December 2022 £'m
Loans from related parties	186.8	75.0	-	-	-	261.8
Bank loans	264.1	-	-	-	(33.0)	231.1
Loan arrangement fees	(6.7)	(0.2)	1.4	-	-	(5.5)
Leases	80.3	7.0	-	4.1	(7.1)	84.3
	<u>524.5</u>	<u>81.8</u>	<u>1.4</u>	<u>4.1</u>	<u>(40.1)</u>	<u>571.7</u>

Further details in respect of the Group's financing liabilities are presented in note 19.

VPI Holding Limited

Notes to the consolidated financial statements For the year ended 31 December 2023

1. Statutory information

VPI Holding Limited ('the Company') is a private company, limited by shares, registered in England and Wales. The Company's registered number and registered office can be found within the General Information presented on page 1.

2. Accounting policies

Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations and with those parts of the Companies Acts 2006 applicable to companies reporting under IFRS. The Company financial statements have been prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

These consolidated financial statements and Company financial statements have been prepared on an historical cost basis, except for certain financial assets and liabilities which have been measured at fair value at the end of each reporting period as explained in the accounting policies below.

The accounting policies which follow set out those policies consistently applied in all material respects to all the periods presented unless otherwise stated. Policies are consistent for both the Company and the Group.

The Company in its own financial statements has taken advantage of the following disclosure exemption in preparing these financial statements, as permitted by FRS 101 'Reduced Disclosure Framework':

- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91 to 99 of IFRS 13 Fair Value Measurement;
- the requirements of the second sentence of paragraph 110 and paragraphs 113(a), 114, 115, 118, 119(a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from Contracts with Customers;
- the requirements of paragraph 52, the second sentence of paragraph 89, and paragraphs 90, 91 and 93 of IFRS 16 Leases;
- the requirements of paragraph 58 of IFRS 16, provided that the disclosure of details of indebtedness required by paragraph 61(1) of Schedule 1 to the Regulations is presented separately for lease liabilities and other liabilities, and in total;
- the requirement in paragraph 38 of IAS 1 Presentation of Financial Statements to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, plant & equipment;
- the requirement in the following paragraphs of IAS 1 Presentation of Financial Statements:
 - 10(d) statement of cash flows;
 - 16 statement of compliance with all IFRS;
 - 38A requirement for minimum of two primary statements, including cash flow statements;
 - 38B–D additional comparative information;
 - 111 statement of cash flows information;
 - 134–136 capital management disclosures;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 17 and 18A of IAS 24 Related Party Disclosures; and
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

2. Accounting policies – continued

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and all of its subsidiary undertakings ('subsidiaries') drawn up to 31 December each year. The financial statements of the subsidiaries are prepared for the same reporting year as the parent company and using accounting policies consistent with the Company.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Standards issued but not yet effective

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

Standard	Title	Effective for periods commencing on or after
Amendments to IFRS 16	Leases on sale and leaseback	1 January 2024
Amendments to IAS 1	Non-current liabilities with covenants	1 January 2024
Amendments to IAS 7 and IFRS 7	Supplier finance	1 January 2024
Amendments to IAS 21	Lack of Exchangeability	1 January 2025

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

Adoption and impact of new standards

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2023:

- Amendments to IAS 1, IAS 8, IAS 12 and Practice Statement 2.

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

2. Accounting policies - continued

Adjusted results

The Group's financial performance for the period, measured in accordance with IFRS, is shown in the 'Statutory Result' column on the face of the Consolidated income statement. Unrealised gains and losses on derivative contracts are deducted from the Statutory Results in arriving at the 'Adjusted Performance' for the year. The Group's Adjusted Performance is consistent with the way management and the Board assess the performance of the Group. The intention is to reflect the underlying trading performance of the Group's businesses and to assist users of the financial statements in evaluating the Group's trading performance and performance against strategic objectives.

'Derivative financial instruments' constitute unrealised gains or losses on derivative contracts. Once the gains or losses are realised, the previously recognised fair value movements are then reversed through remeasurements and recognised within underlying performance within the same financial statement line.

Going concern

The Group's underlying cash flow is strong with net cash inflows of £520.0m and £109.5m pre-dividend payments in the current and prior financial year respectively. Please also refer to the liquidity section of the Strategic report for further information of funds available to the Group.

The Group have prepared forecasts for the next 12 months to September 2025 including its capital investment program and considering the principal risks and uncertainties on pages 5 to 7, these forecasts were also subject to stress testing on cash requirements to ensure that the Group holds adequate resources to operate in the current economic climate for the foreseeable future. To further support the business the Group, as above, has access to a series of liquidity lines including substantial undrawn revolving credit facilities.

Therefore, the Directors conclude there are no material uncertainties relating to events or conditions that may cast significant doubt over the ability of the Group to continue as a going concern and hold a reasonable expectation that the Group has the ability to continue to meet its obligations. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Business combinations

The acquisition method of accounting is used to account for all business combinations, The consideration transferred for the acquisition of a subsidiary comprises the:

- Fair values of the assets transferred;
- Liabilities incurred to the former owners of the acquired business;
- Equity interests issued by the group;
- Fair value of any asset or liability resulting from a contingent consideration arrangement; and
- Fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The group recognises any noncontrolling interest in the acquired entity, on an acquisition-by-acquisition basis, either at fair value or at the noncontrolling interest's proportionate share of the acquired entity's net identifiable assets. Acquisition-related costs are expensed as incurred for consolidation, but form part of the investment in the Company accounts.

The excess of the:

- Consideration transferred;
- Amount of any non-controlling interest in the acquired entity; and
- Acquisition date fair value of any previous equity interest in the acquired entity,

over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in profit or loss as a bargain purchase.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

2. Accounting policies - continued

Foreign currencies

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

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

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

The results and financial position of subsidiaries whose functional currency is not the presentational currency are translated into the presentational currency using the following procedure;

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the statements of financial position date.
- Income and expenses for each income statement are translated at the average exchange rate for that period
- All resulting exchange difference are recognised in other comprehensive income.

Revenue recognition

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

Revenues associated with sales of power, steam, water and ancillary services are recognised when title passes to the customer on delivery being the performance obligation defined within the contract with the customer. All revenues and costs related to the trading of power are recorded on a gross basis within revenue and cost of sales. Revenue and costs related to the trading of commodities consumed in the production process are recorded on a net basis within cost of sales.

Operating profit

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

Exceptional operating costs

The company discloses exceptional operating costs as a separate line in the income statement. Exceptional operating costs are costs which the company determine to be material and non-recurring, such as impairment of assets.

Pensions

The Group operates a defined contribution pension scheme. Contributions are charged to the income statement as they become payable in accordance with the rules of the scheme. Any amounts unpaid are accrued in the statement of financial position at the reporting date.

Interest receivable and payable

Interest receivable and payable is recognised in the period in which it occurs.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

2. Accounting policies - continued

Carbon accrual accounting

Carbon costs are accrued on a weighted average carbon price basis to ensure the expensed value reflects the spark spread hedges traded.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Taxation

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

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

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.

Intangible assets

Goodwill

Goodwill is measured as described in the business combinations section above. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Customer contracts

Customer contracts acquired in a business combination are recognised at fair value at the acquisition date. They have a finite useful life and are subsequently carried at cost less accumulated amortisation and impairment losses.

Property, plant and equipment

Property, plant and equipment are stated at cost, being the fair value at the date of acquisition, less any subsequent accumulated depreciation and any impairment losses. The present value of the expected cost for the decommissioning of an asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

Plant	- 2 to 42 years
Land leases	- 1 to 35 years
Other plant and equipment	- 3 to 5 years
Decommissioning asset	- 3 to 42 years

2. Accounting policies - continued

Property, plant and equipment (continued)

An item of property, plant and equipment is de-recognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on de-recognition of the asset is included in the income statement in the period of de-recognition.

Assets under construction are held at cost until brought into use, at which point depreciation commences.

When a major overhaul is performed, its cost is recognised in the carrying amount of other plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the consolidated income statement as incurred.

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted if appropriate.

Capital spares are included as property, plant and equipment in the financial statements within the Immingham CHP and CCGT Plant category to the extent that the risks and rewards of ownership have been transferred to the Group.

Leases

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

The Group has entered into sale and leaseback arrangements.

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

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

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

Impairment of non-financial assets

Fixed assets used in operations are assessed for impairment whenever changes in facts and circumstances indicate a possible significant deterioration in the recoverable value of the assets. Where the sum of the discounted pre-tax cash flows is less than the carrying value of the asset, the carrying value is written down to estimated fair value. Assets are grouped for impairment purposes at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other assets.

The fair value of impaired assets is determined based on the present values of expected future cash flows. The discount rates used equate to the rate of return that the market would generally expect from equally risky investments. The impairment assessment discounts the foreseeable life of the asset and includes appropriate sensitivities.

The expected future cash flows used for impairment reviews are based on estimated future production volumes, prices and costs, considering all available evidence at the date of review.

Investments

Investments in subsidiaries are held at historical cost less any applicable provision for impairment.

2. Accounting policies – continued

Derivative financial instruments

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

Derivative contracts principally commodity and forward foreign currency exchange contracts, are recorded in the statement of financial position at fair value, with changes in fair value reflected through the income statement. Hedge accounting has not been applied.

Initial recognition and subsequent measurement

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

Inventories

Inventories comprise of consumable engineering spares and emission allowances. Consumable engineering spares are stated at the lower of cost and net realisable value. These are related to the short term maintenance, repair and service of the Immingham CHP and CCGT Plants. Cost is calculated using the weighted average method and excludes delivery costs. Storage and overhead costs are not included when calculating cost.

Cost includes all costs incurred in bringing each item to its present location and condition. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Emission allowances purchased are recognised at the lower of cost or net realisable value. Cost is calculated using the weighted average method.

Decommissioning provision

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

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

Financial instruments

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

Financial assets

Initial Recognition and measurement

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

2. Accounting policies - continued

Subsequent measurement

The subsequent measurement of financial assets depends on their underlying business model and cash flow characteristics in line with the requirements of IFRS 9. No amounts are recognised at fair value through other comprehensive income.

Financial assets at fair value through the income statement

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

Receivables

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

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

De-recognition of financial assets

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

Impairment of financial assets

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

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

Financial liabilities

Initial recognition and measurement

Financial liabilities within the scope of IFRS 9 are classified as financial liabilities at fair value through the income statement, loans and borrowings, as appropriate. The Group determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognised initially at fair value plus directly attributable transaction costs.

2. Accounting policies - continued

Subsequent measurement

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

Financial liabilities at fair value through the income statement

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

Interest bearing loans and borrowings

Obligations for loans and borrowings and trade creditors are recognised when the Group becomes party to the related contracts and are measured initially at the fair value of consideration received less directly attributable transaction costs. After initial recognition, interest bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance revenue and finance cost.

De-recognition of financial liabilities

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

Cash and short-term deposits

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

Government grants

Grants received from the government (UKRI) for the development of the Humber Zero decarbonisation project will be held in deferred income on the balance sheet until the project goes live in 2027. After this, the balance of the deferred income will be released into other income in the income statement over the lifetime of the asset, which is expected to be 25 years. Alternatively, if a decision is made at the Final Investment Decision stage at the end of 2024 to not continue with this project, the grant income received will be released to the profit and loss account in full, aligned to the impairment of the asset under construction. In this event UKRI cannot seek to recover any grant income previously paid.

Critical accounting judgements and key sources of estimation uncertainty

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

The following judgements and estimates are considered by management to have had the most significant effect on the amounts recognised in the financial statements.

Property, plant and equipment

Property, plant and equipment is depreciated on a straight-line basis over its Useful Economic Lives 'UEL's'. UEL's are estimated and based on past experience, future replacement cycles and other available evidence and are reviewed annually. The carrying value of property, plant and equipment (excluding right-of-use assets) at 31 December 2023 is £768.6m (2022: £578.5m) and depreciation on these assets in the year, based on the weighted average useful economic lives was £53.7m (2022: £42.1m).

2. Accounting policies – continued

Provision for decommissioning

The Group has recognised a provision for decommissioning obligations associated with the Plants. 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 Plants from the sites and the expected timing of these costs. The carrying amount of the provision as at 31 December 2023 was £28.6m (2022: £24.7m). The Group estimates that the costs would be realised between 2024 and 2047 and calculates the provision using the discounted cash flow method based on key assumptions including the discount rate and inflation.

Climate Change

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

Impairment of the Group's assets

The Group has recognised an impairment charge on one of its Cash Generating Units ('CGU') of £71.9m (2022: £nil) during the financial year, as disclosed in Note 11. In performing the impairment assessment of the Group's assets, the recoverable amounts of the cash generating units was determined using the Value-In-Use ('VIU') calculation.

As part of the review pre-tax cashflows have been considered over the economic life of each CGU based on forecasts and analysis from both internal and external market specialists. with a 9.86% pre-tax nominal discount rate applied. The Group considers this rate to be reflective of the future prospects for these assets.

The projections covered the remaining economic life of the asset, which is longer than the five-year period specified by IAS36, which is appropriate given the asset lives and the nature of the market in which they operate.

Significant judgements were used to estimate the pre-tax discount rate and the forecast gross margin, which is based on commodity prices and generation volumes, applied in computing the recoverable amount of the CGU. In making these estimates, management has relied on forecasts and analysis from both internal and external market specialists.

If the estimated gross margin used in the VIU calculation had been 5% lower/higher than management's estimates, the Group would have recognised a further/reduction in impairment charge of £44.9m.

If the estimated pre-tax discount rate applied to the discounted cash flows for this CGU had been 1% higher than management's estimates (for example: 10.86% instead of 9.86%), the Group would have recognised a further impairment charge of £24.7m. If the pre-tax discount rate applied to the discounted cash flows for this CGU had been 1% lower than management's estimates (for example: 8.86% instead of 9.86%), the Group would have reduced the impairment charge by £28.3m.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

3. Business combinations

On 23 June 2023, the Group subscribed for 80% of the €1 ordinary share capital and voting rights of Shannonbridge Power Holdings Limited and Lumcloon Power Holdings Limited, holding companies registered in Ireland.

Subsequently on the same day, wholly owned subsidiaries of these entities acquired 100% of the share capital of Shannonbridge Power Limited and Lumcloon Power Limited, registered in Ireland, from a third party. Both of these companies deliver power via 100MW Battery Energy Storage Systems (BESS) constructed for DS3 system services.

As part of the same transaction, the Group also acquired 75% of the ordinary share capital of Derrycarney Solar Limited, a photovoltaic energy project.

The sales and purchase agreements state that if certain criteria are met in the development of Derrycarney Solar Limited, or the Company receives proceeds equal to their initial investment, then they will forfeit 5% of their shareholding in Shannonbridge Power Holdings Limited and Lumcloon Power Holdings Limited, to the minority interest. The likelihood of meeting these criteria was considered to not be a probable outcome at the 31 December 2023 and no provision for contingent consideration has been recorded. This will be revisited at each reporting date.

The acquisitions made in the financial year compliment the Group's strategy to strengthen energy security and grid stability in the rapidly evolving energy landscape and to diversify its exposure to gas prices.

Total purchase consideration was £90.2m. Acquisition related costs amounted to £2.0m. Goodwill arising on the acquisition totalled £7.3m and was not impaired at 31 December 2023.

The acquired assets have made sales of £39.5m and a profit of £20.8m for the financial year ended 31 December 2023 and sales of £23.0m and a profit of £14.2m since the date of acquisition.

The fair values of the assets and liabilities acquired are set out in the table below:

	Book value £'m	Fair value adjustment £'m	Fair value £'m
Intangible assets	-	33.5	33.5
Property, plant and equipment	65.8	8.4	74.2
Financial assets (including cash of £5.2m)	9.0	-	9.0
Financial liabilities	(14.0)	-	(14.0)
Deferred tax	(1.8)	(6.2)	(8.0)
Total identifiable net assets	59.0	35.7	94.7
Fair value of cash consideration			90.2
Non-controlling interest at book value			11.8
Goodwill arising on acquisition			7.3

The total amount of goodwill that is expected to be deductible for tax purposes is £nil.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

4. Revenue

Revenue is attributable to the principal activity of the Group, the production of power and steam. All revenue is recognised at a point in time, when the performance obligation is met, being the delivery of the commodity or service.

An analysis of revenue is given below:

	2023 £'m	2022 £'m
Sale of goods and services	4,929.9	5,594.8
IFRS 9 Derivative movements	(960.7)	1,436.2
Total	3,969.2	7,031.0

Revenue from one customer amounted to £4,504.9m (2022: £4,988.6m), see note 24. There were no contract assets or liabilities at 31 December 2023 (2022: £nil.)

Revenue of £23.0m arose in Ireland, all other revenue arose in the United Kingdom

5. Employees and Directors

Staff costs are included in operating and administrative expenses.

Staff costs, excluding Directors, were as follows:

	2023 £'m	2022 £'m
Wages & salaries	38.0	23.9
Social security costs	4.6	2.2
Other pension costs (note 23)	2.7	2.4
Other costs	2.1	1.7
	47.4	30.2

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

	2023 No.	2022 No.
Administration	57	51
Plant	205	178
	262	229

The Company had no employees in the current or previous financial year.

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

6. Net finance costs

Interest receivable and similar income

	2023 £'m	2022 £'m
Interest receivable on bank deposits	7.6	0.3
Interest receivable on related party loans (note 24)	18.1	3.5
Revaluation of provisions (note 21)	2.8	0.6
Interest receivable on interest swaps	5.4	0.6
Other interest receivable	0.5	-
IFRS 9 Derivative movements	-	15.7
	<u>34.4</u>	<u>20.7</u>

Interest payable and similar expenses

	2023 £'m	2022 £'m
Interest payable on bank loans	17.8	11.5
Interest payable on related party loan notes (note 24)	34.9	31.7
Interest on corporation tax	1.1	-
Amortisation of refinancing cost	1.5	1.4
Unwinding of discount on provisions (note 21)	1.0	-
Finance charges for lease liabilities (note 20)	4.3	4.1
IFRS 9 Derivative movements	5.3	-
	<u>65.9</u>	<u>48.7</u>

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

7. Operating profit/(loss)

Operating profit/(loss) is stated after charging/(crediting):

	2023 £'m	2022 £'m
Depreciation of property, plant & equipment:		
- owned by the Group	53.7	42.1
- right of use assets	3.2	2.3
Amortisation of intangible assets	1.6	-
Exceptional operating costs	74.2	-
Inventories recognised as expense	1.4	1.4
Foreign exchange	1.2	(0.1)
	2023 £'000	2022 £'000
Auditor remuneration		
- audit of the Group Financial Statements	107	60
- audit of subsidiary entities	285	179
- tax compliance services	40	36
- other tax advisory services	25	21

Exceptional operating costs totalling £74.2m consist of an impairment of the Immingham CHP Plant of £71.9m and emission allowances of £2.3m.

The value in use of the Immingham CHP Plant was determined to be £307.5m compared to its pre-impairment carrying value of £379.4m. The £71.9m impairment was allocated to property, plant and equipment within non-current assets. The main factor in the Immingham CGU impairment is a material decline in gross margin forecasts compared to prior years, reflecting the power market's trend to significantly lower levels of volatility. See note 11 for further details.

As at 31 December 2023 emission allowances were impaired by £2.3m (2022: £nil), due to the market value of emissions being lower than cost.

Auditor remuneration above is presented in round thousands.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

8. Income tax

The tax charge is made up as follows:

	2023 £'m	2022 £'m
Current income tax:		
UK corporation tax	134.0	157.3
Adjustments in respect of prior periods	2.6	14.3
Total current income tax expense	136.6	171.6
Deferred tax:		
Origination and reversal of temporary differences	(89.6)	83.9
Effect of changes in tax rates	0.6	-
Adjustments in respect of prior periods	(7.3)	(16.2)
Total deferred tax	(96.3)	67.7
Tax charge reported in the consolidated income statement	40.3	239.3

Tax relating to other comprehensive income

For the current and preceding year there is no tax charged or credited in respect of items of other comprehensive income.

Reconciliation of the total tax charge

A reconciliation between tax expense and the product of accounting profit multiplied by the standard rate of corporation tax in the UK of 23.5% (2022: 19%) is as follows:

	2023 £'m	2022 £'m
Profit on ordinary activities before tax	196.8	1,256.7
Tax calculated at UK standard rate of corporation tax of 23.5% (2022: 19%)	46.2	238.8
Effects of:		
Adjustments in respect of prior periods	(4.7)	(1.9)
Items not deductible for tax purposes	0.8	(2.0)
Overseas tax rates	(2.7)	-
Other timing differences	0.1	2.0
Changes in current year tax rates	0.6	-
Changes to future year tax rates	-	2.4
Tax charge reported in the consolidated income statement	40.3	239.3

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

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

9. Company profit

As permitted by Section 408 of the Companies Act 2006, the income statement of the Company is not presented as part of these financial statements. The Company's profit for the financial year was £643.6m (2022: loss of £4.3m).

10. Dividends

	2023 £'m	2022 £'m
Interim dividend for the year ended 31 December 2023 is £440,000 per share (2022: £75,000 per share)	440.0	75.0

11. Property, plant and equipment

Group	Lease hold land £'m	Land and Plant £'m	Other plant & equipment £'m	De- commissioning asset £'m	Assets under construction £'m	Total £'m
Cost or valuation						
At 1 January 2022	41.9	639.4	65.5	5.9	58.4	811.1
Acquisition of subsidiary	-	-	-	-	2.0	2.0
Additions	-	0.5	-	-	71.9	72.4
Revaluations	7.0	-	-	(2.6)	-	4.4
Transfer between classes	-	47.6	36.7	-	(84.3)	-
Disposals	-	-	-	-	-	-
At 31 December 2022	48.9	687.5	102.2	3.3	48.0	889.9
Acquisition of subsidiary	-	74.1	-	-	0.1	74.2
Additions	2.3	2.0	(0.7)	5.7	231.5	240.8
Revaluations	(0.5)	-	-	-	-	(0.5)
Foreign exchange difference	-	0.6	-	-	(0.2)	0.4
Transfer between classes	-	5.5	17.6	-	(23.1)	-
At 31 December 2023	50.7	769.7	119.1	9.0	256.3	1,204.8
Depreciation						
At 1 January 2022	2.2	161.8	56.6	2.0	-	222.6
Charge for the year	2.3	35.0	5.8	1.3	-	44.4
At 31 December 2022	4.5	196.8	62.4	3.3	-	267.0
Charge for the year	3.2	41.7	12.0	-	-	56.9
Impairment losses	2.4	64.8	3.9	-	0.8	71.9
At 31 December 2023	10.1	303.3	78.3	3.3	0.8	395.8
Net book value						
At 31 December 2023	40.6	466.4	40.8	5.7	255.5	809.0
At 31 December 2022	44.4	490.7	39.8	-	48.0	622.9

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

11. Property, plant and equipment - continued

An impairment review of the Group's asset portfolio was carried out as at 31 December 2023. Given there were no indicators of impairment in the prior year a formal review was not conducted.

As part of the review the Group considered pre-tax cashflows over the economic life of each CGU based on forecasts and analysis from both internal and external market specialists. These future cash flows were discounted using a 9.86% pre-tax nominal discount rate. The Group considers this rate to be reflective of the future prospects for these assets.

The projections covered the remaining economic life of the asset, which is longer than the five-year period specified by IAS36, which is appropriate given the asset lives and the nature of the market in which they operate.

This review concluded with an impairment of the Immingham CHP asset (no other Group Assets were considered impaired). An impairment of £71.9m before deferred tax has been recognised in the Consolidated income statement (under exceptional operating expenses) as the carrying amount was higher than the value in use. The value in use assessment of the Immingham CHP resulted in its property, plant and equipment being impaired to £307.5m compared to its pre-impairment carrying value of £379.4m. The £71.9m impairment was allocated to property, plant and equipment within non-current assets. The main factor in the Immingham CGU impairment is a material decline in gross margin forecasts compared to prior years.

If the estimated gross margin used in the VIU calculation had been 5% lower/higher than management's estimates, the Group would have recognised a further/reduction in impairment charge of £44.9m.

If the estimated pre-tax discount rate applied to the discounted cash flows for this CGU had been 1% higher than management's estimates (for example: 10.86% instead of 9.86%), the Group would have recognised a further impairment charge of £24.7m. If the pre-tax discount rate applied to the discounted cash flows for this CGU had been 1% lower than management's estimates (for example: 8.86% instead of 9.86%), the Group would have reduced the impairment charge by £28.3m.

All leasehold land is held under finance leases. See note 20 for details.

The increase in assets under construction in the year signifies the projects in VPI Immingham B Limited, VPI Immingham Energy Park A Limited and Castlelost Flex Gen Ltd nearing completion and incurring high levels of construction costs.

Lease interest of £94,000 on right of use asset leases has been capitalised (2022: £nil).

Company

The Company does not have any property, plant and equipment.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

12 Intangible Assets

Group

	Goodwill £'m	Customer contracts £'m	Total £'m
At 1 January 2023	-	-	-
Additions	7.3	33.5	40.8
Amortisation charge	-	(1.6)	(1.6)
At 31 December 2023	7.3	31.9	39.2

See note 3 for details of goodwill arising on acquisition of subsidiaries during the year. The Directors have considered the carrying value of goodwill at the Balance Sheet date and have concluded there are no indicators of impairment.

As part of the same acquisition a purchase price allocation exercise was undertaken which identified ongoing contracts and well-established relationships in the acquired subsidiaries with their main customer.

These contracts and relationship are valuable to a potential acquirer of the business, both through the business generated during the remaining contract as well as through repeat business generated after the end of the current contract. They are being amortised over 10 years based on low default risk as the contracts are with a government related entity.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

13. Investments

Company	Shares in group undertaking £'m
Cost	
At 31 December 2022	408.4
Additions	92.2
At 31 December 2023	<u>500.6</u>
Impairment	
At 31 December 2022 and 31 December 2023	<u>-</u>
Net book value	
At 31 December 2023	500.6
At 31 December 2022	<u>408.4</u>

On 23 June 2023, the Company subscribed for 80% of the share capital of Shannonbridge Power Holdings Limited and Lumcloon Power Holdings Limited, being 800 ordinary shares per entity of €1 for a premium of £85.9m.

Shannonbridge Power Holdings Limited has a 100% investment in Shannonbridge Power Investments Limited, which acquired Shannonbridge Power Limited, a BESS company on the same day. Lumcloon Power Holdings Limited has a 100% investment in Lumcloon Power Investments Limited, which acquired Lumcloon Power Limited, a BESS company on the same day.

On 23 June 2023, the Company also acquired 75% of the ordinary share capital of Derrycarney Solar Limited, a photovoltaic energy project, for consideration of £4.3m.

Capitalised acquisition costs relating to the above transactions totalled £2.0m. Further details of the impact of the business combinations on the Group can be found in note 3.

On 16 January 2023, the Company incorporated VPI Flex Holdings Limited, issuing 100 shares of £0.01 at nominal value. VPI Flex Holdings Limited, subsequently incorporated VPI Flex Limited issuing 100 shares of £0.01 at nominal value.

On 24 February 2023 as part of a group reorganisation the Company transferred its shareholding in VPI Immingham B Limited and VPI Immingham Energy Park A Limited to VPI Flex Limited in exchange for the issue of 400 ordinary £0.01 shares in VPI Flex Holdings Limited.

On 17 April 2023, the Company subscribed for 100 ordinary €1 shares at nominal value in VPI Ireland Operations Limited. The company was dormant in 2023 but will act as a service company to the Irish group companies from 2024.

The registered office for companies registered in the UK and Wales is 4th Floor, Nova South, 160 Victoria Street, London, SW1E 5LB. VPI Power Limited's registered office is Building 19 Haymarket Square, Edinburgh, Scotland, EH3 8RY. The registered office for companies registered in Ireland is Parsons House, 56 Axis Business Park, Tullamore, Offaly, Ireland, R35 K744, with the exception of VPI Ireland Operations Limited which is 3 Dublin Landings, North Wall Quay, Dublin 1, D01 C4E0.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

13. Investments (continued)

At 31 December 2023, the Company held investments in the ordinary share capital of the following entities:

Name of entity	Company number	Holding	Country of registration	%	Principal activities
VPI Immingham Operations Limited	03716311	Indirect	England and Wales	100	Intermediate Holding Company
VPI Generation Limited	10547196	Direct	England and Wales	100	Intermediate Holding Company
VPI Immingham B Limited	10630563	Direct	England and Wales	100	Energy Project Development
VPI Immingham Energy Park A Limited	11153063	Direct	England and Wales	100	Energy Project Development
VPI Capture Limited	13592161	Direct	England and Wales	100	Dormant
VPI ICHP Limited	04047993	Indirect	England and Wales	100	Intermediate Holding Company
Immingham Energy Limited	03796899	Indirect	England and Wales	100	Intermediate Holding Company
VPI Immingham LLP	OC300980	Indirect	England and Wales	100	Energy generation
VPI Pipeline Company Limited	14364622	Indirect	England and Wales	100	Gas distribution
VPI Flex Holdings Limited	14593543	Direct	England and Wales	100	Intermediate Holding Company
VPI Flex Limited	14599045	Indirect	England and Wales	100	Intermediate Holding Company
VPI Power Limited	SC189124	Indirect	Scotland	100	Energy generation
Castlelost Flex Gen Limited	696963	Direct	Ireland	51	Energy Project Development
Derrycarney Solar Limited	701315	Direct	Ireland	75	Photovoltaic energy project
Lumcloon Power Holdings Limited	739018	Direct	Ireland	80	Intermediate Holding Company
Lumcloon Power Investments Limited	737355	Indirect	Ireland	80	Intermediate Holding Company
Lumcloon Power Limited	617947	Indirect	Ireland	80	Battery
Shannonbridge Power Holdings Limited	739537	Direct	Ireland	80	Intermediate Holding Company
Shannonbridge Power Investments Limited	737366	Indirect	Ireland	80	Intermediate Holding Company
Shannonbridge Power Limited	617946	Indirect	Ireland	80	Battery
VPI Ireland Operations Limited	738686	Direct	Ireland	100	Dormant

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities

Summary of financial assets and financial liabilities

Group	2023	2022
Financial assets	£'m	£'m
Fair value through income statement:		
Derivative financial instruments non-current	92.5	114.8
Derivative financial instruments current	276.1	1,197.0
Assets at amortised cost:		
Trade receivables	58.0	63.5
Amounts owed by related parties (note 24)	-	798.0
Loans owed by related parties	181.4	-
Cash and short-term deposits	173.0	93.0
	<u>781.0</u>	<u>2,266.3</u>

Group	2023	2022
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Trade payables	39.2	48.2
Amounts owed to related parties	45.5	0.3
Interest-bearing loans and borrowings non-current	512.5	546.7
Interest-bearing loans and borrowings current	25.2	25.0
Fair value through income statement:		
Derivative financial instruments non-current	51.0	71.8
Derivative financial instruments current	213.1	692.5
	<u>886.5</u>	<u>1,384.5</u>

Group	Carrying amount		Fair value	
Financial liabilities	2023	2022	2023	2022
	£'m	£'m	£'m	£'m
Interest-bearing loans and borrowings non-current	512.5	546.7	516.3	550.9
Interest-bearing loans and borrowings current	25.2	25.0	26.6	26.2
Total	<u>537.7</u>	<u>571.7</u>	<u>542.9</u>	<u>577.1</u>

With the exception of interest-bearing loans disclosed above, the carrying value of all financial assets is the same as their fair values.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities - continued

Company	2023	2022
Financial assets	£'m	£'m
Assets at amortised cost:		
Amounts owed by group undertakings	28.5	192.2
Loans owed by group undertakings	210.5	-
Amounts owed by related parties	-	1.1
Cash and short-term deposits	54.2	12.3
	<u>293.2</u>	<u>205.6</u>
 Company	 2023	 2022
Financial liabilities	£'m	£'m
Liabilities at amortised cost:		
Amounts owed by group undertakings	6.8	31.2
Amounts owed to related parties	3.3	2.1
Interest-bearing loans and borrowings non-current	261.8	261.8
	<u>271.9</u>	<u>295.1</u>

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

- Long-term fixed-rate and variable-rate borrowings are evaluated by the Group based on parameters such as interest rates, specific country risk factors, and individual creditworthiness of the customer and the risk characteristics of the financed project.
- The fair value of unquoted instruments, loans from banks and other financial liabilities, obligations under finance leases, as well as other non-current financial liabilities are estimated by discounting future cash flows using rates currently available for debt on similar terms, credit risk and remaining maturities.
- The Group enters into derivative financial instruments with various counterparties, principally energy companies. Derivatives which are valued using valuation techniques with market observable inputs comprise mainly of interest rate swaps, foreign exchange forward contracts and commodity forward contracts. The models used incorporate various inputs including the credit quality of counterparties, foreign exchange spot and forward rates, interest rate curves and forward rate curves of the underlying commodity.
- The credit valuation adjustment in respect of the marked-to-market derivative positions has been assessed by the Group and concluded to not be material. As such no adjustment has been recognised in the current or prior year.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities - continued

Fair value measurement

The following tables provide an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3, as defined within IFRS 13, based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

There have been no transfers between levels during the period.

Derivative financial instruments are valued using a discounted cash flow model. Future cash flows are estimated based on forward rates (from observable rates at the end of the reporting period) and contract forward rates, discounted at an appropriate discount rate. Similar valuation methodologies are used for commodity forward contracts, foreign currency contracts and interest rate swaps. Management consider there to be no material unobservable inputs.

Group	2023 £'m	2022 £'m
Level 2		
Financial assets fair value through income statement		
Instruments designated at fair value	368.6	1,311.8
Group	2023 £'m	2022 £'m
Level 2		
Financial liabilities fair value through income statement		
Instruments designated at fair value	264.1	764.3
Level 2		
Financial assets - at fair value through income statement		
	2023 £'m	2022 £'m
Due within one year		
Commodity forward contracts	276.1	1,197
Total current derivative financial assets	276.1	1,197
	2023 £'m	2022 £'m
Due after one year		
Commodity forward contracts	78.4	100.2
Foreign exchange forward contracts	4.4	-
Interest rate hedging instrument	9.7	14.6
Total non-current derivative financial assets	92.5	114.8

There are no financial instruments at Level 1 or 3.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities - continued

Management assessed that cash and short-term deposits, trade receivables, trade payables, bank overdrafts and other current liabilities approximate their carrying amounts largely due to the short-term maturities of these instruments.

Fair value movements in derivative financial instruments through the consolidated income statement reflect the change in fair value of those commodity forward contracts, interest rate swaps and foreign exchange forward contracts that are not designated in hedge relationships. They are, nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

Financial liabilities – interest bearing loans and borrowings

Group	2023 £'m	2022 £'m
Interest bearing loans and borrowings:		
Floating rate unsecured redeemable loan notes	261.8	261.8
Bank borrowings	193.0	225.6
Lease liabilities	82.9	84.3
Total interest bearing loans and borrowings	537.7	571.7

Bank borrowings consist of a £275.0m 7 year term loan with fixed repayments and a final repayment of £94.8m at maturity in September 2028. To the extent cash generation exceeds pre-agreed levels the facility is also subject to additional cash sweep repayments, if such repayments are made the final repayment at maturity will be reduced. During the year the Group agreed a new revolving credit facility with existing lenders of £88.0m. As at 31 December 2023 the Group had not drawn down on this credit facility. The interest rate applied to the bank borrowings is variable at compounded SONIA reference rates plus a margin. The principal balance at 31 December 2023 was £198.1m (2022: £231.1m) gross of arrangement fees. The bank lenders hold a full security package over the Immingham CHP and CCGT Plants, key contracts and bank accounts with related financial covenants (all covenant tests have been met during the year).

The carrying value of the bank borrowings differs from their fair value due to measurement at amortised cost using the EIR which reflects transaction costs incurred.

The redeemable loan notes which were obtained from shareholders are due for repayment in 2025. The interest rate applied to this loan is variable at SONIA plus a margin. The principal balance at 31 December 2023 was £261.8m (2022: £261.8m).

The Group also has a number of credit facilities in place with related and external parties that it is able to draw upon:

Facility amount	Type	Counterparty	Amount drawn
£275.0m	Credit facility	External bank	£203.9m
£88.0m	Credit facility	External bank.	£nil
£100.0m	Committed revolving credit facility	Vitol S.A.	£nil
£250.0m	Uncommitted revolving credit facility	Vitol S.A.	£nil

In December 2023 the Group entered into a new facility agreement to replace the Group funding of the Castlelost OCGT construction. The new banking facility will allow the company to borrow €167.1m on a 10-year term loan with fixed repayments and a final repayment on 31 October 2034. The Group will be able to draw on this facility upon the completion of agreed construction milestones, these had not been met at the Balance Sheet date and the facility was therefore undrawn at his date. The interest rate to be applied to this facility is variable at EURIBOR reference plus a margin and secured on the OCGT asset.

As at 31 December 2023 the Group had posted cash collateral with Vitol SA of £56.6m (2022: £585.0m) which it was able to do using existing cash reserves.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities – continued

Letters of Credit amounting to £103.5m (2022: £93.0m) are in place. These obligations lapse on settlement of contractual arrangements.

Capital management

Capital includes floating rate unsecured redeemable loan notes and equity attributable to the equity shareholders of the parent. The primary object of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios to support its business and maximise shareholder value. The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and any requirements of its financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares as it deems necessary.

The Group has expanded the business team, to include finance and treasury, to manage the transition to the alternate benchmark rates in relation to IBOR reform. Interest rate hedging instruments have been entered into to reduce the Groups exposure to adverse fluctuations in SONIA interest rates.

Group

Financial liabilities - at fair value through income statement

	2023 £'m	2022 £'m
Due within one year		
Commodity forward contracts	209.3	691.7
Foreign exchange forward contracts	3.8	0.8
Total current derivative financial liabilities	213.1	692.5
	2023 £'m	2022 £'m
Due after one year		
Commodity forward contracts	51.0	70.4
Foreign exchange forward contracts	-	1.4
Total non-current derivative financial liabilities	51.0	71.8

The carrying value of these liabilities is the same as their fair value. Financial liabilities through the income statement reflect the change in fair value of those commodity forward contracts that are not designated in hedge relationships, but are, nevertheless, intended to reduce the level of commodity price risk for expected sales and purchases, interest rate risk on bank borrowings and foreign currency risk for expected purchases.

The fair value of the financial assets and liabilities is included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

14. Financial assets and financial liabilities – continued

Economic hedging activities and derivative financial instruments

Commodity price risk

As detailed in the Principal risks and uncertainties stated on pages 5 to 7 the Group trades power, natural gas and carbon credits on an ongoing basis as its operations require. The assumptions used in measuring the following sensitivity analysis are a reasonable approximation of possible changes.

The Group estimates that in relation to the commodity forward contracts a movement of 5% in the year end valuation of the portfolio of contracts could impact the income statement by £3.5m (2022: £8.4m).

Foreign currency risk

As detailed in the Principal risks and uncertainties stated on pages 5 to 7 the Group uses foreign exchange forward contracts to manage some of its transaction exposures.

The Group estimates that a movement of 5% in foreign currency would impact the income statement by £5.0m (2022: £2.4m).

Interest rate risk

As detailed in the Principal risks and uncertainties stated on pages 5 to 7 the Group uses interest rate swaps to manage its exposure to movements in interest rates.

The Group estimates a 1% movement in interest rates would impact its income statement by £3.6m (2022: £3.7m).

Financial instruments and cash deposits

As detailed in the Principal risks and uncertainties stated on pages 5 to 7 the Group actively manages investments of surplus funds. The majority of credit risk rests with a related party Vitol SA, a subsidiary of Vitol BV, and is therefore deemed immaterial.

Liquidity risk

As detailed in the Principal risks and uncertainties stated on pages 5 to 7 the Group monitors the risk of a shortage of funds using cash flow forecasts and has a number of a number of credit facilities in place with related and external parties that it is able to draw upon, see page 54 for details.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

14. Financial assets and financial liabilities – continued

The table below summarises the maturity profile of the Group's financial liabilities based on contractual payments.

Group

Year ended 31 December 2023

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	25.2	512.5	-	537.7
Trade payables and amounts owed to related parties	-	84.7	-	-	-	84.7
Financial instruments at fair value through income statement	-	159.3	53.8	51.0	-	264.1
	-	244.0	79.0	563.5	-	886.5

Year ended 31 December 2022

	On demand £'m	Less than 3 months £'m	3 to 12 months £'m	1 to 5 years £'m	>5 years £'m	Total £'m
Interest-bearing loans and borrowings	-	-	25.0	430.9	115.8	571.7
Trade payables and amounts owed to related parties	-	48.5	-	-	-	48.5
Financial instruments at fair value through income statement	-	521.6	170.9	71.8	-	764.3
	-	570.1	195.9	502.7	115.8	1,384.5

Credit risk

Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables.

See above on the Group's policy for derivative financial instruments.

Credit risk for banks and institutions is managed at a Group level, only independently rated parties meeting set criteria are accepted.

Customer credit risk is managed subject to the Group's established policy, procedures and control relating to customer credit risk management. The business provides energy to the UK power market through a related party and trades with adjacent refineries. As the majority of trading activity is with Vitol SA the credit risk exposure is considered to be immaterial. The Group has a good quality customer base through the periods of this report and there have been no bad or doubtful debts through the period. An impairment analysis is performed at each reporting date on an individual basis for clients using the credit loss model. The identified impairment loss was immaterial.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed above.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

15. Inventories

Group	2023 £'m	2022 £'m
Consumables	13.7	11.0
Emission allowances	228.4	-
	<u>242.1</u>	<u>11.0</u>

No emission allowances were purchased as at 31 December 2022 and therefore the inventory balance was nil.

As at 31 December 2023 emission allowances were impaired by £2.3m (2022: £nil), due to the market value of emissions being lower than cost.

16. Trade and other receivables

Due within one year	Group		Company	
	2023 £'m	2022 £'m	2023 £'m	2022 £'m
Trade debtors	58.0	63.5	-	-
Amounts owed by group undertakings	-	-	28.5	21.3
Loans owed by group undertakings	-	-	208.0	23.1
Amounts owed by related parties (note 24)	-	798.0	-	1.1
Loans owed by related parties	181.4	-	-	-
Accrued income	2.5	3.8	1.8	-
Prepayments	12.0	10.5	-	-
VAT	2.3	2.1	-	-
	<u>256.2</u>	<u>877.9</u>	<u>238.3</u>	<u>45.5</u>
Due after more than one year				
Loans owed by group undertakings	-	-	2.5	147.8
	<u>-</u>	<u>-</u>	<u>2.5</u>	<u>147.8</u>
Aggregate amounts	<u>256.2</u>	<u>877.9</u>	<u>240.8</u>	<u>193.3</u>

Current trade debtors and amounts due from group undertakings are non-interest bearing and are generally on terms of 30 to 45 days. As at 31 December 2023, as well as the previous year end, no trade or other receivables were overdue, nor were they impaired or provided for. All trade debtors were received from customers after the statement of financial position date but before the date of approval of these financial statements.

Loans owed by related parties were unsecured, interest bearing and repayable on demand. The interest rate applied to the loan is variable at compounded SONIA reference rates plus a margin.

Accrued income of £2.5m at 31 December 2023 (2022: £3.8m) was received in full in 2024.

The carrying value of the trade and other receivables is their fair value.

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

During the year, the Company was repaid the £147.8m due from group undertakings due after more than 1 year.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

17. Called up share capital

Authorised, issued but not fully paid

Number:	Class:	Nominal Value	2023 £	2022 £
1,000	Ordinary	£0.10	100	100

18. Trade and other payables

Due within one year	2023 £'m	Group 2022 £'m	2023 £'m	Company 2022 £'m
Trade payables	39.2	48.2	-	-
Amounts owed to group undertakings	-	-	6.8	31.2
Amounts owed to related parties (note 24)	45.5	0.3	3.3	-
Social security and other taxes	2.1	0.6	-	-
VAT	0.5	-	-	-
Deferred income	5.2	8.2	-	-
Accruals	272.4	379.0	-	-
Accrued interest	-	13.2	-	2.1
	<u>364.9</u>	<u>449.5</u>	<u>10.1</u>	<u>33.3</u>

Current trade creditors are non-interest bearing and are normally settled within 30 - 45 day terms. Current other trade payables are non-interest bearing.

Deferred income relates to a contribution received for the development of energy services unit. A grant in relation to this project was received for £14.9m and this is being released to the profit and loss over 5 years between October 2020 and September 2025.

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

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

The carrying value of current trade payables is the same as their fair value.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

19. Bank and other borrowings

Due within one year	Group 2023 £'m	2022 £'m	Company 2023 £'m	2022 £'m
Bank borrowings	21.6	21.7	-	-
Due after more than one year				
Bank borrowings	171.4	203.9	-	-
Floating rate unsecured redeemable loan notes	261.8	261.8	261.8	261.8
	433.2	465.7	261.8	261.8

All borrowings are denominated in pounds sterling and are held at amortised cost.

Note 14 provides information about the Group's loans and borrowing commitments and repayment obligations.

Included within the above loans are amounts falling due as follows:

	2023 £'m	2022 £'m
Within 1 year	21.6	21.7
Between two and five years	433.2	349.9
Later than 5 years	-	115.8
	454.8	487.4

20. Leases

The Group leases land occupied by some of its plants, ancillary buildings and car parks. It also leases some plant and machinery.

In 2021 the Group entered into a sale and leaseback arrangement for the land at Rye House and Damhead Creek. The transaction created right of use assets classified under leasehold land in plant and equipment. A profit of £18.6m was recorded on the sale. The land was sold and leased back on 12 and 15-year terms respectively.

The leases held by the group are due to expire within 1 and 26 years and have been discounted at rates between 3.75% and 5.48%.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

20. Leases - continued

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

	2023 £'m	2022 £'m
Property, plant and equipment:		
Right-of-use assets		
Land	40.6	44.4
Included in the £40.6m are additions to leasehold assets on assets under construction of £2.4m (2022: nil)		
Leases liabilities:		
Current	3.6	3.3
Non-current	79.3	81.0
	<u>82.9</u>	<u>84.3</u>

The income statement shows the following amounts relating to leases

	2023 £'m	2022 £'m
Depreciation	3.2	2.3
Interest expense	4.3	4.1
Impairment of the leased assets	2.4	4.1
	<u>9.9</u>	<u>6.4</u>

Commitments in relation to finance leases are payable as follows:

	2023 £'m	2022 £'m
Within one year	7.8	7.6
Later than one year but not later than five years	33.4	32.4
Later than five years	<u>78.5</u>	<u>83.9</u>
Minimum lease payments	119.7	123.9
Future finance charges	<u>(36.8)</u>	<u>(39.6)</u>
Lease liability	<u>82.9</u>	<u>84.3</u>

The total cash outflow for leases in 2023 was £7.6m (2022: £7.1m)

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

21. Provisions

	Decommissioning £'m
At 1 January 2023	24.7
Additions	5.7
Revaluation	(2.8)
Unwinding of discount	1.0
At 31 December 2023	<u>28.6</u>

The decommissioning obligation in respect of the Plants has been estimated using the present value of future decommissioning costs, inflated using relevant long-term inflation rates and discounted at an applicable risk free interest rate. Management have undertaken an exercise to revalue the provision during the year (including the acquired amounts) reflecting the best available evidence of the expected costs to be incurred in future periods. As in the preceding year, no decommissioning costs are currently expected to be incurred within the next year. The effect of discounting recognised is being unwound over periods from 2024 to 2047.

22. Deferred tax

	2023 £'m	2022 £'m
Group		
At beginning of year	188.4	120.7
Acquisition of subsidiary	8.0	-
(Credit)/charge during the year	(96.3)	67.7
At the end of year	<u>100.1</u>	<u>188.4</u>

The provision for deferred tax is made up as follows:

	2023 £'m	2022 £'m
Group		
Accelerated capital allowances	62.5	80.3
Other timing differences	10.7	5.0
Derivative contracts	26.9	103.1
	<u>100.1</u>	<u>188.4</u>

At 31 December 2023, the Group had unrecognised deferred tax assets of £18.2m (2022: 19.8m) relating to capital allowances.

23. Pension commitments

The Group operates a defined contribution scheme. There was an amount outstanding at 31 December 2023 of £0.4m (2022: £0.2m).

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

24. Related parties

Note 13 provides information about the Group's structure. The following transactions have been entered into with related parties during the relevant financial year:

VPI Immingham LLP and VPI Power Limited, both indirect subsidiaries, have entered into arm's length energy trading arrangements with Vitol SA, part of the group of companies of a shareholder. Under these arrangements, Vitol SA act as an agent to provide route to market services for members of the Group, generating turnover and cost of goods sold of £4,504.9m (2022: £4,988.6m) and £3,908.5m (2022: £4,452.2m) respectively. In addition, energy management service agreement charges of £1.8m (2022: £1.1m) incurred by Vitol SA on behalf of VPI Immingham LLP and VPI Generation Limited were expensed to operating and administrative expenses.

During the year letters of credit costs and banking costs incurred by Vitol SA on behalf of VPI Immingham LLP, VPI Power Limited, VPI Immingham B Limited, VPI Immingham Energy Park A Limited, VPI Generation Limited and Castlelost Flex Gen Limited totalling £0.5m (2022: £0.5m) were expensed to operating and administrative expenses.

During the year administrative costs incurred by Vitol Services Ltd on behalf of VPI Immingham LLP totalling £1.3m (2022: £0.9m) were expensed to operating and administrative expenses. These transactions were entered into on an arm's length basis. Included within note 18 are £0.0m (2022: £0.3m) owed to Vitol Services Ltd, part of the group of companies of a shareholder.

Included within interest receivable are £18.1m (2022: £3.5m) of interest received on funds held on deposit with Vitol SA.

A new £500.0m revolving credit facility was entered into with Vitol SA during the year and remained undrawn at the year with £250.0m committed at the year end. Included within interest payable are commitment fees of £3.6m which were payable during the year.

Included in note 16 is £nil (2022: £798.0m) of amounts owed from Vitol SA and included in note 18 is £45.5m (2022: £0.3m) of amounts owed to Vitol SA and the shareholders of VPI Holding Limited. Included within amounts owed to Vitol SA was £56.6m (2022: £585.0m included within amounts owed from Vitol SA) regarding collateral posted to cover credit exposures, which was repaid to the Group in January 2024 as exposures had cleared. The remaining balances were trading balances.

Included within note 16 is £181.4m (2022: nil) of loans owed from Vitol SA regarding surplus funds held on deposit.

The £261.8m (2022: £261.8m) floating rate unsecured redeemable loan notes included in note 19 are held jointly by the shareholders of VPI Holding Limited. Interest payable under these loan notes in the year was £31.6m (2022: £31.7m). At the 31 December 2023 accrued interest of £nil was due to shareholders (2022: £13.2m).

During the year Castlelost Flex Gen Limited incurred management service charges and project development costs from Lumcloon Energy Limited, a related party entity which is connected by way of mutual directors of the company, totalling £0.6m (2022: £0.2m) which were capitalised in tangible assets.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

25. Ultimate parent company and controlling party

Following a shareholder reorganisation in September 2024, VPI Midco Limited is now the immediate parent undertaking of the Company and VPI Limited is the ultimate parent company of the Company; both companies are registered in Jersey. There is no ultimate controlling party. Prior to this reorganisation and at the balance sheet date, there was no ultimate parent or controlling party.

VPI Midco Limited, a UK tax resident company, will be the parent of the largest group of undertakings for which group financial statements are drawn up and of which the Company is a member. VPI Midco Limited was incorporated in February 2024 and so financial statements were not prepared for the year ended 31 December 2023.

VPI Holding Limited is the parent undertaking of the smallest and largest undertaking for which group financial statements will be drawn up for the year ended 31 December 2023, and of which the Company is a member. Copies of the 2023 financial statements are available from 4th Floor, Nova South, 160 Victoria Street, London, England, SW1E 5LB, which is also the registered office address of the smallest and largest undertakings in the group.

26. Guarantees and contingent liabilities

Letters of Credit amounting to £103.5m (2022: £90.4m) have been made on behalf of VPI Holding by Vitol S.A.. These obligations lapse on settlement of contractual arrangements.

The bank lenders hold a full security package over the Immingham CHP and CCGT Plants, key contracts and bank accounts with related financial covenants (all covenant tests have been met during the year).

Contingent consideration of £29.0m is payable if an event is triggered in relation to the Damhead Creek II project within 15 years of the completion date. The likelihood of triggering these events will be dependent on future capacity market auction outcomes and will be considered at each reporting date. This was not considered to be a probable outcome as at 31 December 2023 and no provision for contingent consideration has been recorded.

The sales and purchase agreements for the acquisitions made in 2023 state that if certain criteria are met in the development of Derrycarney Solar Limited, or the Company receives proceeds equal to their initial investment, then they will forfeit 5% of their shareholding in Shannonbridge Power Holdings Limited and Lumcloon Power Holdings Limited, to the minority interest. The likelihood of meeting these criteria was not considered to be a probable outcome at the 31 December 2023 and no provision for contingent consideration has been recorded. This will be reconsidered at each reporting date.

27. Capital Commitments

Castlelost Flex Gen Limited, a controlled subsidiary, has contracted for project development costs of €68.8m (2022: €4.0m) relating to work to be commenced in 2024. VPI Immingham B Limited, a wholly owned subsidiary, has contracted for project development costs of £73.3m (2022: £nil) relating to work to be commenced in 2024. VPI Immingham Energy Park A Limited, a wholly owned subsidiary, has contracted for project development costs of £8.0m (2022: £nil) relating to work to be commenced in 2024 relating to work to be commenced in 2024. The rest of the Group has £5.9m (2022: £9.3m) that was contracted for at the Statement of financial position date but not recognised in the financial statements.

28. Events after the Balance Sheet date

The Group successfully participated in the T-4 Capacity Market auction for the delivery year 2027-28 which concluded on 27 February 2024, with a clearing auction price of £65/kW/year.

On 21 December 2023 Castlelost Flex Gen Limited, a subsidiary, entered into a Facility Agreement with financial institutions to partly refinance its loan from VPI Holding Limited and provide further funding through the construction program. The facility is for up to €167.1m. An initial drawdown against this facility of €109.5m was made on 15 July 2024. The balance of the facility will be drawn over the remaining construction period.

VPI Holding Limited

Notes to the consolidated financial statements - continued For the year ended 31 December 2023

28. Events after the Balance Sheet date (continued)

On 15 February 2024 the Company entered into an upstream loan facility agreement with Vitol S.A., an affiliate of the Company, which enables it to place surplus funds on deposit.

In April 2024 the Company received interim dividends from its 80% holding in Irish subsidiaries of €10.96m. The Irish Subsidiaries paid £2.74m in Dividends to the minority interest which holds the other 20% of the shares in these subsidiaries. In July 2024 the Company received further interim dividends from its 80% holding in Irish subsidiaries of €12.0m. The Irish Subsidiaries paid €3.0m in Dividends to the minority interest.

On 11 June 2024 the Directors of VPI Generation Limited, a subsidiary, approved a capital reduction in accordance with section 641 of the Companies Act 2006 in which the balance on the share premium account of £408.1m is reduced to £nil and the balance on the distributable reserves is increased by £408.1m.

In August 2024 VPI Ireland Operations Limited, a subsidiary, acquired 90% of a developmental holding company, VPI FlexKraft GmbH, for a consideration of €0.3m. The remaining 10% is owned by a joint venture partner.

On 23 August 2024, the Company received dividends from group undertakings of £97.0m and subsequently on the same day paid dividends of £100.0m to its shareholders.

In September 2024 as part of a shareholder restructuring exercise, the Company was party to the following transactions:

- Issuing 298,834,651 Ordinary redeemable shares of £0.000,000,1 at par value.
- Converting the total share premium balance of £166.6m to distributable reserves and cancelling 545 of its original £0.10 Ordinary shares.
- Temporary shareholder loan of £298.8m to enable the subsequent redemption of the 298,834,651 Ordinary redeemable shares at a premium of £1 per share.

The remaining share capital in the Company and the existing shareholder loans totalling £261.8m were transferred to VPI Midco Limited as part of the shareholder restructure, making VPI Midco Limited owner of 100% of the share capital in the Company.

VPI Midco Limited subsequently entered into a short term funding arrangement with the Company of £298.8m, to enable repayment of the initial loan received prior to the redemption. This short term funding was capitalised shortly after receipt.