Progress Power Limited

Annual Report and Audited Financial Statements

For the Year Ended

31 December 2018

Company Number 08421833

Progress Power Limited

Report and financial statements
for the year ended 31 December 2018

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Directors

Andrew Koss
Andrew Skelton (appointed 20 June 2019)

Company secretary

David McCallum (resigned 31 January 2019)
Brett Gladden (appointed 1 February 2019)

Registered office

Drax Power Station
Selby
North Yorkshire
YO8 8PH

Company number

08421833

Auditor

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

Progress Power Limited

Directors' Report
for the year ended 31 December 2018

The directors present their report together with the audited financial statements for Progress Power Limited (the "Company") for the year ended 31 December 2018. The prior year comparatives are for the year ended 31 December 2017.

Principal activity

The business is preparing to participate in future UK Capacity Market Auctions to acquire a long term capacity market contract to enable the financing, construction and operation of a 299MW OCGT (Open Cycle Gas Turbine) power generation plant.

Results and dividends

The loss for the year, after taxation, amounted to £30 (2017 – loss of £24,052).

The directors do not recommend the payment of a dividend in respect of the financial year (2017 – Nil).

Principal risks and uncertainties

The Group has a comprehensive system of governance controls in place to mitigate risks. Policies, procedures and internal controls have been established across the key areas of the business to ensure that these risks are managed in a controlled manner and in accordance with the policies set by the Board.

The Drax Group Risk Management Committee is responsible for monitoring the risk management process, ensuring that all risks associated with a specific area of the business are identified, analysed and managed systematically and appropriately. This Committee also forms part of the wider risk management processes of Drax Group plc, and the detailed report is included on pages 44 to 49 of the Annual Report of Drax Group plc, which is applicable to the Company's significant investments.

Going concern

In assessing whether the Company remains a going concern, the directors considered the Company's activities and the financial position of the Company.

The Company has a net asset position on the balance sheet and the directors have a reasonable expectation that the Company has adequate resources to continue in existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

At 31 December 2018, the Company had net current liabilities of £121,326 (2017: £115,854). This is principally due to the £201,548 (2017: £211,876) payable to other group undertakings. The company has guaranteed the support of the Group and on this basis consider that the Company can meet its liabilities as they fall due for the foreseeable future.

The Company has two options to lease the land on which the development is planned which currently expire in December 2019. Both options can be extended for a further year to expire in December 2020. At the date of signing these Accounts, it is considered probable that the land options will be extended to December 2020 and therefore the Directors have reasonable expectations that the Company will be a going concern for the foreseeable future.

The directors believe that the Capacity Market is an important cornerstone energy policy, a cost-effective safeguard for security of supply and necessary to underpin the development of new generation projects.

Our view that the Capacity Market will be re-established on the same or similar terms is consistent with the position expressed by the UK Government. We expect the issue to be resolved during 2019 and we reflect this in our expectations for the year and the future of the Company.

Directors

The directors who served during the year and subsequently were:

Andrew Koss
Jens Wolf (resigned 30 June 2019)
Andrew Skelton (appointed 20 June 2019)

Disclosure of information to auditor

Each of the persons who are directors at the time when this Directors' Report is approved has confirmed that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditor is unaware, and
- the director has taken all the steps that ought to have been taken as a director in order to be aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

The auditor, Deloitte LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

Small companies' note

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

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

This report was approved by the board on 25th September 2019 and signed on its behalf.

Andrew Koss
Director

Directors' Responsibilities Statement
for the year ended 31 December 2018

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework". Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the company for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make 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.

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.

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Progress Power Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 31 December 2018 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the income statement;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 15.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

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

We are independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

- the directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

We have nothing to report in respect of these matters.

Other information

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

In connection with our audit of the financial statements, 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 audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. 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 respect of these matters.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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 directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the directors' report.

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- the directors were not entitled to prepare the financial statements in accordance with the small companies regime and take advantage of the small companies' exemptions in preparing the directors' report and from the requirement to prepare a strategic report.

We have nothing to report in respect of these matters.

Use of our report

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

Anthony Matthews

Anthony Matthews FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
Date: 26 September 2019

Progress Power Limited

Income Statement
for the year ended 31 December 2018

	Note	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Administrative expenses		(30)	(129)
Other operating income	4	-	1,372
Operating (loss)/profit		(30)	1,243
Interest payable and similar expenses	7	-	(25,295)
Loss before tax	5	(30)	(24,052)
Tax on loss	8	-	-
Loss for the financial year		(30)	(24,052)

There was no other comprehensive income for the current or preceding financial year and thus no statement of comprehensive income is presented.

The notes on pages 11 to 17 form part of these financial statements.

Progress Power Limited

Balance Sheet
as at 31 December 2018

Company number 08421833	Note	2018 £	2018 £	2017 £	2017 £
Fixed assets					
Property, plant and equipment	9		517,800		512,358
Current assets					
Trade and other receivables	10	81,602		97,182	
Cash and cash equivalents		174		204	
		81,776		97,386	
Trade and other payables: amounts falling due within one year	11	(203,102)		(213,240)	
Net current liabilities			(121,326)		(115,854)
Total assets less current liabilities			396,474		396,504
Net assets			396,474		396,504
Capital and reserves					
Called up share capital	12		100		100
Profit and loss account	13		396,374		396,404
Equity attributable to the owners of the parent company			396,474		396,504

Company Number: 08421833

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 25th September 2019.

Andrew Koss
Director

The notes on pages 11 to 17 form part of these financial statements.

Progress Power Limited

Statement of Changes in Equity
for the year ended 31 December 2018

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2018	100	396,404	396,504
Comprehensive loss for the year			
Loss for the year	-	(30)	(30)
Total comprehensive loss for the year	-	(30)	(30)
At 31 December 2018	**100**	**396,374**	**396,474**

Statement of Changes in Equity
for the year ended 31 December 2017

	Called up share capital £	Profit and loss account £	Total equity £
At 1 January 2017	100	420,456	420,556
Comprehensive loss for the year			
Loss for the year	-	(24,052)	(24,052)
Total comprehensive loss for the year	-	(24,052)	(24,052)
At 31 December 2017	100	396,404	396,504

The notes on pages 11 to 17 form part of these financial statements.

1 General information

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

2 Accounting policies

2.1 Basis of preparation of financial statements

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

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

2.2 Financial reporting standard 101 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the 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 and Equipment;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement.

This information is included in the consolidated financial statements of Drax Group plc as at 31 December 2018 and these financial statements may be obtained from Drax Power Station, Selby, North Yorkshire, YO8 8PH.

2.2.1 Adoption of new accounting standards

A number of new and amended standards became effective for the first time in 2018, including IFRS 9 and IFRS 15.

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for periods beginning on or after 1 January 2018, bringing together all three aspects of accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

These updates and amendments have not had a material impact on the financial statements of the Company and therefore prior year comparatives have not been restated.

In respect of accounting for trade and other receivables, the Company has applied IFRS 9's approach to provisioning and has calculated this using expected lifetime losses. This calculation has not had a material impact on the financial statements.

2 Accounting policies *(continued)*

2.2.1 Adoption of new accounting standards (continued)

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations. It applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. Adoption of IFRS 15 has not resulted in any changes to the amounts recognised in these financial statements compared to the previous requirements, nor any restatement to the prior period comparative information.

The transition to the new standards is complete; however the Company will monitor emerging developments and interpretations of the new standards.

These updates and amendments have not had a material impact on the financial statements of the Company, nor required any restatement of the prior period comparative information.

2.3 Property, plant and equipment

Property, plant and equipment under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Depreciation is provided on a straight-line basis to write down assets to their residual value evenly over the estimated useful lives of the assets from the date of acquisition (where relevant, limited to the expected decommissioning date of the power station).

Useful economic lives ("UEL") are assigned on an asset by asset basis.

2.4 Inventories

Inventories are valued at the lower of cost and net realisable value.

2.5 Trade and other receivables

Trade and other receivables are initially measured at fair value and subsequently measured at amortised cost. A provision for impairment of trade receivables is measured at an amount equal to the lifetime expected credit loss. The transition to IFRS 9 has not had a significant impact on the calculation of the provision.

2.6 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.7 Trade and other payables

Trade and other payables represent amounts we owe to our suppliers (for trade purchases and ongoing costs), tax authorities and other creditors that are due to be paid in the ordinary course of business. We make accruals for amounts that will fall due for payment in the future as a result of our activities in the current year (e.g. costs we have incurred but for which we have not yet been invoiced).

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

2 Accounting policies *(continued)*

2.8 Foreign currency translation

The financial statements are presented in pounds sterling, which is the currency of the primary economic environment in which the Company operates (its functional currency).

2.9 Taxation

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

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

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

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

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

2.10 Going concern

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

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

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

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years. The directors have made one significant judgement in preparing these financial statements, which is that there is no impairment of tangible fixed assets. This is dependent upon successfully obtaining capacity market contracts in future periods. There are no other key sources of estimation uncertainty.

4 Other operating result/income

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Other operating income	-	1,372

5 Loss before tax

The audit fee of £500 relating to the auditing of the financial statements (year ended 31 December 2017 - £500) and Companies House fees were borne by another group undertaking.

6 Employees

The Company has no employees. The directors remuneration was borne by another group undertaking in the current and prior period.

7 Interest payable and similar expenses

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Interest payable to group undertakings	-	25,295
Interest payable and similar expenses	-	25,295

8 Tax on loss

Tax charged in the profit and loss account

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Tax charge comprises:		
Current period	-	-
Adjustments in respect of prior periods	-	-
	-	-
Deferred Tax:		
Current period	-	-
Adjustments in respect of prior periods	-	-
	-	-
Tax charge	-	-

The tax on the loss (2017: loss) for the year is higher (2017: lower) than the standard rate of Corporation Tax in the UK of 19% (2017: 19.25%). The differences are explained below:

	Year ended 31 December 2018 £	Year ended 31 December 2017 £
Loss on ordinary activities before tax	(30)	(24,052)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 19% (2017 – 19.25%)	(6)	(4,630)
Pre-trading expenditure	6	4,630
Total tax charge for the year	-	-

Factors that may affect future tax charges

The Finance Act 2015 included legislation to reduce the rate of UK corporation tax from 20% to 19% from 1 April 2017, and to 18% from 1 April 2020. In addition, the Finance Act 2016 included legislation to reduce the rate of UK corporation tax to 17% from 1 April 2020.

9 Property, plant and equipment

	Assets under development £
Cost	
At 1 January 2018	512,358
Additions	5,442
At 31 December 2018	**517,800**
Net book value	
At 31 December 2018	**517,800**
At 31 December 2017	512,358

10 Trade and other receivables

	2018 £	2017 £
Amounts owed by group undertakings	**1,800**	17,380
Prepayments and accrued income	**79,802**	79,802
	81,602	97,182

The amounts due from other group undertakings within one year includes short-term trading balances that are settled according to normal payment terms.

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

	2018 £	2017 £
Amounts owed to group undertakings	**201,548**	211,876
Accruals and deferred income	**1,554**	1,364
	203,102	213,240

The amounts due to other group undertakings bear a commercial rate of interest, payable at regular intervals with due dates set according to the terms of each individual agreement. In the absence of payment on the due dates, interest is rolled over and capitalised. The full amount is repayable on demand.

12 Called up share capital

	2018	2017
	£	£
Allotted, called up and fully paid		
100 ordinary shares of £1	**100**	100

13 Profit and loss account

The Company's capital and reserves are as follows:

Share Capital

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

Profit and loss account

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

14 Option agreements and future commitments

The Company holds two options to lease the land on which the development is planned. The Company has total commitments of £58,500 (2017 - £115,300) payable annually in respect of these options, which expire in 1 year.

Both options can be extended for a further year to expire in December 2020. At the date of signing these Accounts, it is considered probable that both the land options will be extended to December 2020.

15 Ultimate parent undertaking and controlling party

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

The ultimate parent company is Drax Group plc, a publicly listed company incorporated in England and Wales. Drax Group plc is the smallest and largest group for which consolidated financial statements are prepared and the registered office is Drax Power Station, Selby, North Yorkshire YO8 8PH. Copies of the consolidated financial statements for Drax Group plc are available from: Company Secretary, Drax Power Station, Selby, North Yorkshire YO8 8PH, or on the Group's website at www.drax.com.