Opus Energy Limited

Annual Report and Financial Statements

Year Ended

31 December 2018

Company Number 04382246

Opus Energy Limited

Company information

Directors

Will Gardiner
Jonathan Kini
Carl Goulton

Secretary

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

Registered office

Drax Power Station, Selby, North Yorkshire, United Kingdom, YO8 8PH

Company number

04382246

Auditor

Deloitte LLP, Statutory Auditor, 2 New Street Square, London, EC4A 3BZ

Opus Energy Limited

Annual Report and financial statements
for the year ended 31 December 2018

Contents

Opus Energy Limited

Strategic Report
for the year ended 31 December 2018

Introduction

The directors present their strategic report for Opus Energy Limited (the "Company") for the year ended 31 December 2018.

Business review and future developments

Opus Energy Limited is licensed to supply electricity and gas to commercial customers in Great Britain. The Company is also licensed to ship gas in Great Britain. Electricity is supplied to commercial customers under the Opus brand name. Gas is shipped for the Company's sister company, Opus Gas Supply Limited. Electricity is also supplied to domestic and commercial customers under the brand names of the Company's third party partners.

Turnover increased by 22%, from £396.4 million to £484.6 million. Gross profit increased by 56% from £43.3 million to £67.5 million, and the gross margin percentage increased from 11% to 14%. Operating expenses increased by 11%, from £48.5 million to £53.8 million with profit after tax increasing from a £3.6 million loss to £11.4 million profit. The net assets of the Company have decreased by £11.7m million to £35.7 million.

Principal risks and uncertainties

The primary risks and uncertainties facing the Company are: competition; volatility in the Company's costs of supply; the effect of the macroeconomic environment on the ability of customers to pay their energy bills on a timely basis and the impact of regulatory changes on margins and cashflow.

The business energy market is very competitive. The Company seeks to manage the risk of losing customers to competitors by strict cost controls, disciplined pricing strategies, innovation in billing systems and maintaining high standards of customer service.

The Company devotes considerable management resources and develops systems and models designed to hedge price risk and match as closely as possible the quantities of electricity which it buys at a fixed price with its commitments to supply to customers at a fixed price. However, in volatile wholesale electricity commodity markets, it is not always possible to match these prices and volumes; variables include the weather and end-customer demand. In addition to the rigorous modelling of the demand of its portfolio of customers, which is continually updated, the Company seeks to protect itself through its contractual terms with its customers and through maintenance of a pricing policy which ensures sufficient margin for such inevitable forecasting errors.

Bad debts associated with failure of customers to pay their energy bills represent one of the largest administrative expenses of the business. Late payment of customer bills also imposes increased working capital requirements of the Company. The Company actively monitors the credit of its customers, varies its pricing to accommodate customer credit risk profile, manages its customer portfolio to mitigate credit concentration and devotes significant resources to managing its debtor book, including the development and continuous improvement of IT systems to minimise the billing inaccuracies which can lead to late payments.

The energy sector is subject to considerable political and regulatory scrutiny. The Company maintains a regular dialogue with the regulator to ensure that it is fully informed of changes in market structure which could have a commercial impact on the business.

A Risk Management committee is responsible for monitoring this risk management process, ensuring that all risks associated with specific areas of the business are identified, analysed and managed systematically and appropriately. This committee also forms part of the wider risk management process of Drax Group plc. Further information on these risks as well as financials risk are included in the annual report of Drax Group plc.

Going concern

The Company is part of the Drax Group banking facilities. As such funding is provided by a group treasury company, Drax Corporate Limited, by way of a cash pool arrangement with sufficient headroom to enable the Company to meet its working capital requirements and to invest in the people and systems required for future growth.

Key performance indicators

The directors monitor the following key performance indicators (KPIs) of the Company on a regular basis:

	2018 %	2017 %
Gross profit percentage	13.9	10.9
Operating profit/(loss) percentage	2.8	(1.3)
Profit/(loss) after tax percentage	2.4	(0.9)

This report was approved by the board on 30 April 2019 and signed on its behalf.

Jonathan Kini
Director

Opus Energy Limited

Directors' Report
for the year ended 31 December 2018

The directors present their report and the audited financial statements for the year ended 31 December 2018.

Results and dividends

The profit for the year, after taxation, amounted to £11,420k (2016 - £3,616k loss).

The Directors do not recommend the payment of a dividend (2017: £Nil)

Directors

The directors who served during the year and to the date of this report, unless otherwise stated, were:

Will Gardiner	
Jonathan Kini	
Carl Goulton	(appointed 17 January 2018)
Nicola Flanders	(resigned 6 March 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.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Matters covered in the Strategic Report

Disclosures of principal activity and future developments of the Company are commented upon in the Strategic Report as the directors consider them to be of strategic importance to the Company.

Auditor

Deloitte LLP have been reappointed as auditor in accordance with section 485 of the Companies Act 2006.

This report was approved by the board on 30 April 2019 and signed on its behalf.

Jonathan Kini
Director

Opus Energy Limited

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 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland". 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.

Independent Auditor's Report to the Members of Opus Energy Limited

Opinion

In our opinion, the financial statements of Opus Energy 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 profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the Company's financial statements which comprise:

- the profit and loss account;
- the statement of financial position;
- the statement of changes in equity; and
- the related notes 1 to 25

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (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 the 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 strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

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

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

Use of our report

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

Anthony Matthews

Anthony Matthews FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
30 April 2019

Opus Energy Limited

Profit and Loss Account
for the year ended 31 December 2018

	Note	2018 £'000	2017 £'000
Turnover	4	**484,615**	396,385
Cost of sales		**(417,076)**	(353,043)
Gross profit		**67,539**	43,342
Administrative expenses		**(53,781)**	(48,456)
Operating profit/(loss)	5	**13,758**	(5,114)
Interest receivable and similar income	9	**26**	33
Interest payable and similar charges	10	**(1,478)**	(1,039)
Profit/(loss) before tax		**12,306**	(6,120)
Tax on profit/(loss)	11	**(886)**	2,504
Profit/(loss) for the financial year		**11,420**	(3,616)

All activities derive from continuing operations.

There are no comprehensive income or expenses other than the profit for the current year and the loss for the preceding year. Accordingly, no statement of comprehensive income is given.

The notes on pages 12 to 28 form part of these financial statements.

Opus Energy Limited
Registered number: 04382246

Statement of Financial Position
at 31 December 2018

	Note		2018 £'000		2017 £'000
Fixed assets					
Intangible assets	12		**12,450**		2,602
Tangible assets	13		**19,926**		19,901
			32,376		22,503
Current assets					
Debtors: amounts falling due within one year	14	**175,849**		178,119	
Cash at bank and in hand		**2,440**		469	
		178,289		178,588	
Creditors: amounts falling due within one year	15	**(174,585)**		(176,794)	
Net current assets			**3,704**		1,794
Total assets less current liabilities			**36,080**		24,297
Provisions for liabilities					
Deferred tax	16	**-**		(54)	
Other provisions	17	**(400)**		(262)	
			(400)		(316)
Net assets			**35,680**		23,981
Capital and reserves					
Called up share capital	19		**4,000**		4,000
Other reserves	18		**842**		563
Retained earnings	18		**30,838**		19,418
Equity attributable to the owners of the parent company			**35,680**		23,981

The financial statements were approved and authorised for issue by the board and were signed on its behalf on 30 April 2019

Jonathan Kini
Director

The notes on pages 12 to 28 form part of these financial statements.

Opus Energy Limited

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

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2018	**4,000**	**563**	**19,418**	**23,981**
Profit for the year				
Profit for the year	-	-	11,420	11,420
Total profit for the year	-	-	11,420	11,420
Share based payment transactions	-	279	-	279
At 31 December 2018	**4,000**	**842**	**30,838**	**35,680**

Statement of Changes in Equity
For the period ended 31 December 2017

	Called up share capital £000	Other reserves £000	Profit and loss account £000	Total equity £000
At 1 January 2017	4,000	403	**23,034**	27,437
Loss for the year				
Loss for the year	-	-	**(3,616)**	(3,616)
Total loss for the year	-	-	**(3,616)**	(3,616)
Share based payment transactions	-	160	-	160
At 31 December 2017	4,000	563	**19,418**	23,981

The notes on pages 12 to 28 form part of these financial statements.

1 General information

Opus Energy Limited is a private Company, limited by shares, incorporated in the United Kingdom under the Companies Act 2006 and is registered in England and Wales. 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 Strategic Report.

2 Accounting policies

2.1 Basis on 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 102, the Financial Reporting Standard applicable in the UK and the Republic of Ireland and the Companies Act 2006.

The financial statements are presented in Sterling (£) and rounded to the nearest £'000s.

The preparation of financial statements in compliance with FRS 102 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 Going concern

The Company is part of the Drax Group banking facilities. As such funding is provided by a group treasury company, Drax Corporate Limited, by way of a cash pool arrangement with sufficient headroom to enable the Company to meet its working capital requirements and to invest in the people and systems required for future growth.

The following principal accounting policies have been applied:

2.3 Financial reporting standard 102 – reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions in preparing these financial statements, as permitted by the FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland":

- the requirements of Section 7 Statement of Cash Flows;
- the requirements of Section 3 Financial Statement Presentation paragraph 3.17(d);
- the requirements of Section 11 Financial Instruments paragraphs 11.41(c), 11.41(e), 11.42, 11.44 to 11.45, 11.47, 11.48(a)(iii), 11.48(a)(iv), 11.48(b) and 11.48(c);
- the requirements of Section 12 Other Financial Instruments paragraphs 12.26 to 12.27, 12.29(a), 12.29(b) and 12.29A;
- the requirements Section 26 paragraphs 26.18(b), 26.19 to 26.21 and 26.23;
- the requirements of Section 33 Related Party Disclosures paragraph 33.7.

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 Accounting policies *(continued)*

2.4 Turnover

Turnover represents the fair value of the consideration received or receivable from the sale of actual and estimated electricity and gas supplied during the period, net of discounts and value added taxes, and to a lesser extent, turnover from services provided to other companies associated with the supply of electricity and gas.

Turnover includes the directors' best estimate of differences between estimated sales and billed sales. All actual metered consumption data related to customers' electricity consumption received by the end of the period has been reflected in turnover. Actual metered consumption data relating to the period but received after the period end is not reflected in turnover. The estimated consumption data is revised over a fourteen month settlement period.

Turnover is recognised when the associated risks and rewards of ownership have been transferred, to the extent that it is probable that the economic benefits associated with the transaction will flow to the Company and where the turnover can be measured reliably. For electricity supplied and gas shipped, turnover is recognised on consumption.

Also included in turnover is other income arising from site works and other site disconnection costs which are recharged to the Company's customers.

2.5 Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours .

2.6 Interest receivable and similar income

Interest receivable and similar income is recognised in the Profit and Loss Account on an accruals basis using the effective interest method.

2.7 Interest payable and similar charges

Interest payable and similar charges are recognised in the Profit and Loss Account on an accruals basis using the effective interest method.

2.8 Borrowing costs

All borrowing costs are recognised in the Profit and Loss Account in the year in which they are incurred.

2.9 Contract costs

Commissions payable to third parties in respect of obtaining customer contracts are amortised over the life of the contract.

2.10 Operating leases

Leases that do not transfer all the risks and rewards of ownership are classified as operating leases.

Rentals paid under operating leases are charged to the Profit and Loss Account on a straight line basis over the lease term.

Benefits received and receivable as an incentive to sign an operating lease are recognised on a straight line basis over the period of the lease.

2 Accounting policies *(continued)*

2.11 Intangible assets

Intangible assets are initially recognised at cost. After recognition, under the cost model, intangible assets are measured at cost less any accumulated amortisation and any accumulated impairment losses.

All intangible assets are considered to have a finite useful life. If a reliable estimate of the useful life cannot be made, the useful life shall not exceed ten years.

2.12 Tangible fixed assets

Tangible fixed assets 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.

Land is not depreciated. Depreciation on other assets is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Long-term leasehold property	-	Lease period
Improvements to property	-	Straight line over 30 years
Fixtures and fittings	-	Straight line over 4 years
Office equipment	-	Straight line over 4 years
Computer equipment	-	Straight line over 4 years
Computer software	-	Straight line over 3 years

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Profit and Loss Account.

2.13 Revaluation of tangible fixed assets

Individual freehold and leasehold properties are carried at current year value at fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are undertaken with sufficient regularity to ensure the carrying amount does not differ materially from that which would be determined using fair value at the statement of financial position date.

Fair values are determined from market based evidence normally undertaken by professionally qualified valuers.

Revaluation gains and losses are recognised in the Profit and Loss Account unless losses exceed the previously recognised gains or reflect a clear consumption of economic benefits, in which case the excess losses are recognised in profit or loss.

2 Accounting policies *(continued)*

2.14 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

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

At each period end foreign currency monetary items are translated using the closing rate. Non-monetary items measured at historical cost are translated using the exchange rate at the date of the transaction and non-monetary items measured at fair value are measured using the exchange rate when fair value was determined.

Foreign exchange gains and losses resulting from the settlement of transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Profit and Loss Account except when deferred in other income as qualifying cash flow hedges.

2.15 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 shareholder resolution.

2.16 Pensions

Defined contribution pension plan

The Company operates a defined contribution plan for its employees. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate entity. Once the contributions have been paid the Company has no further payment obligations.

The contributions are recognised as an expense in the Profit and Loss Account when they fall due. Amounts not paid are shown in accruals as a liability in the statement of financial position. The assets of the plan are held separately from the Company in independently administered funds.

2.17 Share based payments

The ultimate parent company issues equity settled share-based payments to certain employees which are measured at fair value (excluding the effect of non-market vesting conditions) at the date of grant and expensed on a straight-line basis over the vesting period, based on an estimate of the shares that will ultimately vest and adjusted for the effect of non-market-based vesting conditions. Given the nature of the share-based payments, these are included in equity as a capital contribution.

2 Accounting policies *(continued)*

2.18 Provisions for liabilities

Provisions are made where an event has taken place that gives the Company a legal or constructive obligation that probably requires settlement by a transfer of economic benefit, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the Profit and Loss Account in the year that the Company becomes aware of the obligation and are measured at the best estimate at the statement of financial position date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the statement of financial position.

2.19 Current and deferred taxation

Current tax, including UK corporation tax is based on the taxable profit or loss for the year. Taxable profit or loss differs from profit/loss as reported in the Profit and Loss Account because it excludes items of income or expenditure that are either taxable or deductible in other years or never taxable/deductible. The Company's liability (or asset) for current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements in the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other income or directly in equity, in which case the current and deferred tax are recognised in other income or directly in equity respectively.

2.20 Research and development

In the research phase of an internal project it is not possible to demonstrate that the project will generate future economic benefits and hence all expenditure on research shall be recognised as an expense when it is incurred. Intangible assets are recognised from the development phase of a project if and only if certain specific criteria are met in order to demonstrate the asset will generate probable future economic benefits and that its cost can be reliably measured. The capitalised development costs are subsequently amortised on a straight line basis over their useful economic lives, which range from 3 to 6 years.

If it is not possible to distinguish between the research phase and the development phase of an internal project, the expenditure is treated as if it were all incurred in the research phase only.

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

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the statement of financial position date and the amounts reported for sales and expenses during the period. The most critical of these accounting judgements and estimates are detailed below.

3.1 Turnover and cost of sales

Turnover derived from the supply of energy includes an estimate of the value of electricity supplied to customers between the date of the last meter reading and the end of the reporting period. Estimates of the number of units consumed but not yet processed through the settlement process are based on industry data until final reconciliation data is received.

Similarly purchase volumes are also subject to the same degree of estimation, with associated settlement costs dependent on the receipt of final reconciliation data.

3.2 Financial instruments

Trade and other debtors / creditors have no stated interest rate, do not constitute a financing transaction, and are due to be settled within one year and as such are initially and subsequently measured at the undiscounted amount of consideration expected to be received, net of impairment.

The Company has long term commercial agreements for the supply of electricity and gas. On the grounds that these contracts are held for the purpose of the delivery of a non-financial item in accordance with the Company's expected purchase and sale requirements, the own use exemption has been applied. As a result, the agreements do not fall within the scope of Section 12 of FRS 102 and are not accounted for as derivatives.

3.3 Impairment of trade debtors

Trade debtors are stated net of the allowance for the impairment of bad and doubtful debts. Debtor balances are provided against from the date the invoice is raised. A small percentage is attributed to those debtor balances not yet due. Receivables are categorised based on customer type and account type, attributing varying risk profiles to each possibility. The percentages applied to each 'bucket' of aged receivables is based on the average loss for that category, based on historic experience over the last two years.

3.4 ROC recycle

Renewable Obligation Certificates (ROCs) are green certificates used by suppliers to demonstrate that they have met their obligation to source a certain proportion of the electricity they supply from renewable sources. The value of a ROC is determined by the buy out price, set by Ofgem, and a re-cycle element of the final ROC value determined once all energy suppliers have demonstrated either compliance or non-compliance. The Company estimates a re-cycle value based on industry data relating to the total output of renewable energy in the UK, generation capacity and demand, until a final value is determined.

4 Turnover

The whole of the turnover is attributable to the principal activity of the Company and arose solely within the United Kingdom.

5 Operating profit/(loss)

	2018 £'000	2017 £'000
The operating profit/(loss) is stated after charging:		
Depreciation of tangible fixed assets	**1,717**	1,040
Amortisation of intangible assets	**134**	45
Fees payable to the Company's auditor and its associates for the audit of the Company's annual financial statements	**86**	76
Exchange differences	**33**	82
Other operating lease rentals	**2,134**	2,753
Defined contribution pension cost	**521**	683

6 Employees

	2018 £'000	2017 £'000
Staff costs, including directors' remuneration, were as follows:		
Wages and salaries	**31,530**	26,026
Social security costs	**3,069**	2,630
Cost of defined contribution scheme	**795**	711
	35,394	29,367

Included in wages and salaries is a total expense of share-based payments of £279k (2017: £160k).

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

	2018 Number	2017 Number
Administrative staff	**856**	822
Sales staff	**108**	72
	964	894

7 Directors' remuneration

	2018 £'000	2017 £'000
Directors' emoluments	**315**	791
Company contributions to defined contribution pension schemes	**10**	27
Share based payments	**-**	10
	325	828

During the year retirement benefits were accruing to no directors (2017 - none) in respect of defined contribution pension schemes.

The highest paid director received remuneration of £325k (2016 - £238k).

The value of the company's contributions paid to a defined contribution pension scheme in respect of the highest paid director amounted to £10k (2017 - £24k).

8 Share based payments

The Company participates in two types of share plan operated by the ultimate parent company Drax Group plc. The Drax Group plc Savings-Related share Option Plan ("SAYE Plan") is open to all employees, and the Drax Group plc Performance Share Plan ("PSP") provides long term incentives to executive directors and senior managers.

	2018 £'000	2017 £'000
SAYE Plan	**195**	118
PSP	**84**	25
	279	143

Additional information on the share-based incentive plans is included in the remuneration committee report in the Drax Group plc Annual Report and Accounts 2018.

9 Interest receivable and similar income

	2018 £'000	2017 £'000
Interest receivable from group companies	-	1
Other interest receivable	26	32
	26	33

10 Interest payable and similar charges

	2018 £'000	2017 £'000
Bank interest payable	177	357
Interest payable to group undertakings	1,301	608
ROC repo interest	-	74
	1,478	1,039

11 Taxation

	2018 £'000	2017 £'000
Corporation tax		
Tax on profit/(loss)s for the year	**952**	**(2,613)**
Deferred tax		
Origination and reversal of timing differences	**(66)**	**109**
Taxation on profit/(loss)	**886**	**(2,504)**

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2017 - lower than) the standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%). The differences are explained below:

	2018 £'000	2017 £'000
Profit/(loss) before tax	**12,306**	**(6,120)**
Profit/(loss) multiplied by standard rate of corporation tax in the UK of 19.00% (2017 – 19.25%)	**2,338**	**(1,178)**
Effects of:		
Expenses not deductible for tax purposes	**100**	97
Tax deduction arising from exercise of employee share options	**-**	(1,547)
Adjustment from previous periods	**(1,224)**	-
Other differences leading to an increase/ (decrease) in the tax charge	**(328)**	124
Total tax charge/(credit) for the year	**886**	(2,504)

11 Taxation *(continued)*

Factors that may affect future tax charges

In recent years the UK Government has steadily reduced the rate of UK corporation tax, with the latest rates substantively enacted by the reporting date being 19% effective from 1 April 2017 and 17% effective from 1 April 2020. To the extent they are recognised, the closing deferred tax balances are calculated at 17%, on the basis that this is the rate at which those assets and liabilities are expected to unwind.

12 Intangible assets

	Project costs £'000
Cost	
1 January 2018	2,647
Additions - internal	9,982
At 31 December 2018	12,629
Amortisation	
At 1 January 2018	45
Charge for the year	134
At 31 December 2018	**179**
Net book value	
At 31 December 2018	**12,450**
At 31 December 2017	2,602

Intangible assets comprise internally generated project costs relating to software developments for which the Company has adequate resources to complete and utilise the associated asset.

13 Tangible fixed assets

	Freehold Land £000	Property £000	Improvements to property £000	Fixtures and fittings £000	Office equipment £000	Computer equipment £000	Total £000
Cost or valuation							
At 1 January 2018	**3,187**	**13,192**	**1,631**	**654**	**116**	**5,157**	**23,937**
Additions	-	309	67	12	30	1,328	1,746
Reclassifications	-	458	-	(458)	-	-	-
Disposals	-	-	(12)	-	(12)	(15)	(39)
At 31 December 2018	**3,187**	**13,959**	**1,686**	**208**	**134**	**6,470**	**25,644**
Depreciation							
At 1 January 2018	-	-	**1,107**	**157**	**77**	**2,695**	**4,036**
Charge for the year on owned assets	-	424	131	16	23	1,123	1,717
Disposals	-	-	(12)	-	(10)	(13)	(35)
At 31 December 2018	-	**424**	**1,226**	**173**	**90**	**3,805**	**5,718**
Net book value							
At 31 December 2018	**3,187**	**13,535**	**460**	**35**	**44**	**2,665**	**19,926**
At 31 December 2017	3,187	13,192	524	497	39	2,462	19,901

14 Debtors

	2018 £'000	2017 £'000
Trade debtors	**47,551**	39,402
Amounts owed by group undertakings	**76,975**	74,770
Other debtors	**7,086**	4,049
Prepayments and accrued income	**39,327**	56,235
Corporation tax	**4,898**	3,663
Deferred tax (note 16)	**12**	-
	175,849	178,119

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

15 Creditors: Amounts falling due within one year

	2018 £'000	2017 £'000
Bank overdrafts	**-**	8,787
Trade creditors	**8,884**	8,746
Amounts owed to group undertakings	**75,362**	39,445
Amounts owed to parent undertakings	**17,059**	31,741
Other taxation and social security	**3,791**	5,716
Other creditors	**16,910**	20,129
Accruals and deferred income	**52,579**	62,230
	174,585	176,794

The Company participates in a cash pooling arrangement involving other group companies. Interest arising on the cash pooling arrangements is rolled up into the principal.
The amounts owed to group undertakings includes a £23.1m principal (2017 £30m) due to a fellow subsidiary undertaking, Drax Corporate Limited. The Loan bears interest at commercial rates and is payable at regular intervals. The full amount is repayable on demand.
Other amounts owed to group undertakings are repayable on demand, unsecured and interest free.

16 Deferred taxation asset/(liability)

	2018 £'000
At 1 January 2018	(54)
Credit for the year	66
At 31 December 2018	12

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled based on the tax rates that have been enacted or substantively enacted at the statement of financial position date.
The deferred tax asset as at 31 December 2018 has been calculated based on the rate of 20%.

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

	2018 £'000	2017 £'000
Accelerated capital allowances	**(125)**	**(74)**
Other timing differences	**137**	**20**
	12	**(54)**

17 Provisions

	Dilapidation £'000
At 1 January 2018	262
Charged to profit or loss	138
At 31 December 2018	**400**

The provision relates to three leased buildings which were occupied by the Company and is for the restoration of the buildings to their state before they were occupied by the Company, once the lease has come to an end or is terminated. The lease was terminated in March 2018 and the Company is in the process of confirming the costs which will be required for the restoration works.

18 Reserves

Other reserves

This reserve is used to record capital contributions received from the Parent company to reflect the increase in equity of the Company through the granting of share options.

Retained earnings

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

19 Share capital

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
4,000,000 ordinary shares of £1 each	**4,000**	4,000

20 Pension commitments

The Company operates a defined contribution pension scheme. The pension cost charge for the year represents contributions payable by the Company to the scheme and amounted to £521k (2017: £683k).

Contributions which amounted to £459k at 31 December 2018 (2017: £130k) were payable to the scheme and are included in creditors.

21 Commitments under operating leases

At 31 December 2018 the Company had future minimum lease payments under non-cancellable operating leases as follows:

Land and buildings

	2018 £'000	2017 £'000
Not later than 1 year	520	625
Later than 1 year and not later than 5 years	1,776	1,936
Later than 5 years	623	982
	2,919	3,543

Other

	2018 £'000	2017 £'000
Not later than 1 year	2,120	2,089
Later than 1 year and not later than 5 years	6,116	6,479
Later than 5 years	2,171	2,518
	10,407	11,086

22 Other financial commitments

At 31 December 2018, the Company had committed to purchase the following:

	2018 £'000	2017 £'000
Wholesale gas and electricity	370,962	318,341
Other financial commitments	-	18
	370,962	318,359

The commitment to purchase wholesale gas and electricity extends to March 2023 (2017: March 2020).

23 Related party transactions

As the Company is a wholly owned subsidiary of Opus Energy Group Limited, the Company has taken advantage of the exemption contained in Section 33 of FRS 102 and has therefore not disclosed transactions with other wholly owned entities which form part of the group.

24 Contingent liabilities

Guarantees

The Drax Group's financing structure includes £350 million (2017: £550 million) of high-yield, publicly traded bonds on the Luxembourg exchange, and a £350 million (2017: £350 million) Senior Facility comprised of a £315 million revolving credit facility (RCF) and an index-linked term loan of £35 million.

On 27 April 2018, the Drax Group raised a further US $300 million publicly traded bonds and subsequently repaid the floating rate bond notes of £200 million which were raised in 2017.

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

- At 31 December 2018 the outstanding secured borrowings amounted to £622.4 million (2017: £586.6 million). These borrowings are also guaranteed and secured by other members of the Drax Group.
- In addition, the Company provides security and guarantees to other group undertakings in respect of letters of credit issued under the revolving credit facility, held by Drax Corporate Limited. At 31 December 2018, letters of credit issued amounted to £31.8 million (2017: £35.7 million).

The Company also provides security and guarantees to Drax Power Limited which would crystallise in the event of Drax Power Limited defaulting on the terms of its commodity trading line and foreign exchange trading line. As at 31 December 2018, this value was £11.9 million (2017: £3.6 million).

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

Post balance sheet events

On 16 October 2018, the Group entered into a £725 million acquisition bridge facility agreement to finance the acquisition of ScottishPower Generation Limited. On 2 January 2019, the Group drew down £550 million from the bridge facility to part-fund the acquisition. The bridge facility is guaranteed by the Company under the same terms as the existing structure noted above.

25 Ultimate controlling party

The Company's immediate parent undertaking is Opus Energy Group 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. 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.