

Simec Lochaber Hydropower 2 Limited
Financial Statements
30 November 2017



KING & KING

Chartered accountant & statutory auditor
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London
W1B 2HA

Simec Lochaber Hydropower 2 Limited

Financial Statements

Period from 1 January 2017 to 30 November 2017

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Simec Lochaber Hydropower 2 Limited

Strategic Report

Period from 1 January 2017 to 30 November 2017

The directors present their Strategic report on Simec Lochaber Hydropower Ltd previously known as Alcan Aluminium UK Limited (the "Company") for the year ended 30th November 2017.

Introduction

The Company became a wholly owned subsidiary of Simec Lochabar Hydropower Ltd and a member of the Simec Group Ltd incorporated in Hong Kong (the "Group") on 16th December 2016 upon acquisition from Rio Tinto group. The company is incorporated and domiciled in the United Kingdom and is a company limited by shares.

The Company's principal activities up to 16th December 2016 were the smelting of aluminium. On 16th December 2016, the company's aluminium division was sold to Liberty Aluminium Lochaber Ltd. The company also held Marine Ship Chartering operation since 1st February 2015. This European Ship chartering operation was transferred out to a fellow subsidiary of Rio Tinto group on 16th December 2016. Hence all the trading activities of the last year were discontinued upon the purchase of the company by SIMEC Group.

The company was left with two hydro power plants generating electricity and estate assets acquired from British Alcan Aluminium Ltd as at 16th December 2016. On 28th April 2017, one of the Hydropower plant located at Kinlochleven was sold to Simec Kinlochleven Power Ltd at a sale consideration of £151,500,000. After this sale the company is left with one Hydro power plant situated at Lochaber which exclusively sells electricity generated to Liberty Aluminium Lochaber Ltd, one of the GFG Alliance company.

During the year company sold land to one of its group company- Simec LEM Ltd at a value of £6,000,000 out of its estate assets.

Business review

The results for the year ended 30th November 2017 are set out on Page 10 and shows revenue of £23,842,348 (2016:£83,055,363). The revenue during the year comprises of sale of electricity and income received from estate assets. Further details of revenue by geographical area and market are given in note 4 to the financial statements.

During the year, the company made gross profit for the period of £16,591,000 (2016:7,924,000) and the operating profit for the period of £2,365,000 (2016: £5,388,000).

Company's last year activities and trading results are not comparable to the current year due to the change of the trading activities as described above.

During the year, no interim dividend was paid and director does not recommend a final dividend.

The statement of financial position as at 30th November 2017 shows "total assets less current liabilities" of £614,733,000 (2016:£612,017,000).

The company has also entered into a profit participation deed with Liberty Aluminium Lochaber Ltd (LAL) which as agreed until 31 March 2021 obliged the company to support LAL to maintain a required EBITDA subject to a maximum of £10,000,000. During the year the company has transferred out £4,112,066 (2016:Nil) of its profit to LAL which is disclosed on the face of the statement of comprehensive income.

Simec Lochaber Hydropower 2 Limited

Strategic Report *(continued)*

Period from 1 January 2017 to 30 November 2017

These financial statements have been prepared on a going concern basis as the company continues to operate a hydro power plant in Lochaber. Fixed quantity power purchase agreements are in place to that effect. It also receives income from its estates assets every year in the form of rent, sale of livestock, grants and royalties.

Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks. The key business risks affecting the Company are set out below:

Water continuity risk

The company's principal asset is a continuously operating hydro power plant. A stable and secure supply of water is therefore key to the success of the business and proper controls over its water resources are essential if it is to retain its licence to operate. Risks include an inadequate supply of water, an uncontrolled release of water from storage reservoirs and problems delivering the water from the reservoirs to the power station through a system that includes a tunnel of more than 85 years old, maintenance of which is at the limit of industry operational experience. These risks and the controls around them are constantly assessed by management and are mitigated by the long experience of staff in water management, the availability of underground working experience within the wider Group and the ability to buy in power from the electricity grid to meet a short term shortfall.

Employee risk

The Company's performance depends largely on its local management and staff. The resignation of key individuals and the inability to recruit people with the right experience and skills from the local community could adversely impact the Company's results. This is mitigated by the Company's ability to recruit expertise from within the larger Group if such a situation arose.

Financial risks

The Company has some exposure to credit risk on its debtors but this is actively managed and limited by the fact that most sales are made to fellow Group subsidiaries. The Company also has foreign exchange exposure on its trading that is managed via a hedging strategy where considered necessary by management.

Environmental legislative risk

The Company's business requires the generation of large quantities of electricity and the safe control and disposal of air, ground and water pollutants. Environmental legislation has progressively tightened restrictions and this trend seems likely to continue. Both the costs of compliance and the penalties for failing to meet the standards set can be very high. The Company takes its environmental responsibilities very seriously and devotes significant resources to ensuring that its environmental standards and targets are met or exceeded.

Simec Lochaber Hydropower 2 Limited

Strategic Report *(continued)*

Period from 1 January 2017 to 30 November 2017

Financial key performance indicators

The Company's directors are of the opinion that there are no meaningful financial or other key performance indicators that would be necessary or appropriate for an understanding of the development, performance or position of the Company's standalone activities other than those disclosed in the business review.

This report was approved by the board of directors on 27th February 2019 and signed on behalf of the board by:



Mr P K Gupta
Director

Registered office:
7 Hertford Street
London
England
W1J 7RH

Simec Lochaber Hydropower 2 Limited

Directors' Report

Period from 1 January 2017 to 30 November 2017

The directors present their report and the financial statements of the company for the period ended 30 November 2017.

Directors

The directors who served the company during the period were as follows:

Mr P K Gupta
Mr R Gandhi

Dividends

Particulars of recommended dividends are detailed in note 12 to the financial statements.

Directors' responsibilities statement

The directors are responsible for preparing the strategic report, directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial period. 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). 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 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;
- 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.

Auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as they are aware, there is no relevant audit information of which the company's auditor is unaware; and
- they have taken all steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditor is aware of that information.

Simec Lochaber Hydropower 2 Limited

Directors' Report *(continued)*

Period from 1 January 2017 to 30 November 2017

King & King continued to act as auditors during the year and have expressed their willingness to continue in office. A resolution to re-appoint them will be proposed at the annual general meeting.

This report was approved by the board of directors on 27th February 2019 and signed on behalf of the board by:



Mr P K Gupta
Director

Registered office:
7 Hertford Street
London
England
W1J 7RH

Simec Lochaber Hydropower 2 Limited

Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited

Period from 1 January 2017 to 30 November 2017

Opinion

We have audited the financial statements of Simec Lochaber Hydropower 2 Limited (the 'company') for the period ended 30 November 2017 which comprise the statement of comprehensive income, statement of financial position, statement of changes in equity and the related notes, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland (United Kingdom Generally Accepted Accounting Practice).

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.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 30 November 2017 and of its profit for the period then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- have been prepared in accordance with the requirements of the Companies Act 2006.

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 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 have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you 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.

Simec Lochaber Hydropower 2 Limited

Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited *(continued)*

Period from 1 January 2017 to 30 November 2017

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. 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 this regard.

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 period 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.

Matters on which we are required to report by exception

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 material misstatements in the strategic report or the directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you 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.

Simec Lochaber Hydropower 2 Limited

Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited *(continued)*

Period from 1 January 2017 to 30 November 2017

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.

As part of an audit in accordance with ISAs (UK), we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Simec Lochaber Hydropower 2 Limited

Independent Auditor's Report to the Members of Simec Lochaber Hydropower 2 Limited *(continued)*

Period from 1 January 2017 to 30 November 2017

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



Milankumar H. Patel
King & King
Chartered accountant & statutory auditor
First Floor Roxburghe House
273-287 Regent Street
London
W1B 2HA

27th February 2019

Simec Lochaber Hydropower 2 Limited

Statement of Comprehensive Income

Period from 1 January 2017 to 30 November 2017

		Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Turnover	Note 4	23,842	83,055
Cost of sales		7,251	75,131
Gross profit		16,591	7,924
Administrative expenses		10,114	3,646
Other operating income	5	–	1,110
Profit share transferred out		4,112	–
Operating profit	6	2,365	5,388
Other interest receivable and similar income	9	–	1,010
Interest payable and similar expenses	10	(219)	642
Profit before taxation		2,584	5,756
Tax on profit	11	–	4,742
Profit for the financial period		2,584	1,014
Revaluation surplus net of deferred tax		–	416,545
Actuarial gain (loss) net of deferred tax		3,532	(3,728)
Other comprehensive income for the period		3,532	412,817
Total comprehensive income for the period		6,116	413,831

All the activities of the company stated last year are from discontinuing operations.

All the trading activities of the company stated in the current year are from continuing operations.

The notes on pages 13 to 25 form part of these financial statements.

Simec Lochaber Hydropower 2 Limited

Statement of Financial Position

30 November 2017

	Note	30 Nov 17 £000	31 Dec 16 £000
Fixed assets			
Tangible assets	13	402,605	565,542
Current assets			
Debtors	14	218,938	47,536
Cash at bank and in hand		791	2,743
		<u>219,729</u>	<u>50,279</u>
Creditors: amounts falling due within one year	15	<u>7,601</u>	<u>3,804</u>
Net current assets		<u>212,128</u>	<u>46,475</u>
Total assets less current liabilities		<u>614,733</u>	<u>612,017</u>
Provisions	16	<u>78,368</u>	<u>78,587</u>
Net assets excluding defined benefit pension plan asset		<u>536,365</u>	<u>533,430</u>
Defined benefit pension plan liability	18	(57,997)	(63,311)
Defined benefit pension plan asset	18	<u>72,672</u>	<u>74,805</u>
Net assets including defined benefit pension plan asset		<u><u>551,040</u></u>	<u><u>544,924</u></u>
Capital and reserves			
Called up share capital	19	105,000	105,000
Capital redemption reserve	20	16,000	16,000
Profit and loss account	20	<u>430,040</u>	<u>423,924</u>
Shareholders' funds		<u><u>551,040</u></u>	<u><u>544,924</u></u>

These financial statements were approved by the board of directors and authorised for issue on 27th February 2019, and are signed on behalf of the board by:



Mr P K Gupta
Director

Company registration number: 00750143

The notes on pages 13 to 25 form part of these financial statements.

Simec Lochaber Hydropower 2 Limited

Statement of Changes in Equity

Period from 1 January 2017 to 30 November 2017

	Called up share capital £000	Capital redemption reserve £000	Profit and loss account £000	Total £000
At 1 January 2016	200,000	16,000	(29,907)	186,093
Profit for the period			1,014	1,014
Other comprehensive income for the period:				
Revaluation surplus net of deferred tax	–	–	416,545	416,545
Actuarial loss on pension scheme net of tax	–	–	(3,728)	(3,728)
Total comprehensive income for the period	–	–	413,831	413,831
Dividends paid and payable	12	–	(55,000)	(55,000)
Cancellation of subscribed capital	(95,000)	–	95,000	–
Total investments by and distributions to owners	(95,000)	–	40,000	(55,000)
At 31 December 2016	105,000	16,000	423,924	544,924
Profit for the period			2,584	2,584
Other comprehensive income for the period:				
Actuarial gain on pension scheme net of tax	–	–	3,532	3,532
Total comprehensive income for the period	–	–	6,116	6,116
At 30 November 2017	105,000	16,000	430,040	551,040

The notes on pages 13 to 25 form part of these financial statements.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements

Period from 1 January 2017 to 30 November 2017

1. General information

The company is a private company limited by shares, registered in England and Wales. The address of the registered office is 7 Hertford Street, London, W1J 7RH, England.

2. Statement of compliance

These financial statements have been prepared in compliance with FRS 102, 'The Financial Reporting Standard applicable in the UK and the Republic of Ireland'.

3. Accounting policies

Basis of preparation

The financial statements have been prepared on the historical cost basis, as modified by the revaluation of certain financial assets and liabilities and investment properties measured at fair value through profit or loss.

The financial statements are prepared in sterling, which is the functional currency of the entity.

Disclosure exemptions

The entity satisfies the criteria of being a qualifying entity as defined in FRS 102. Its financial statements are consolidated into the financial statements of Simec Group which can be obtained from its registered office, Suite 2202-2204, Gloucester Tower, The Landmark Building, 11 Pedder Street, Central Hong Kong. As such, advantage has been taken of the following disclosure exemptions available under paragraph 1.12 of FRS 102: (b) No cash flow statement has been presented for the company, (c) Disclosure in respect of financial instruments have not been presented.

Judgements 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. These estimates and judgements are continually reviewed and are based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Revenue recognition

Turnover is measured at the fair value of the consideration received or receivable for goods supplied and services rendered, net of discounts and Value Added Tax.

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have transferred to the buyer (usually on despatch of the goods or consumption of the electricity); the amount of revenue can be measured reliably; it is probable that the associated economic benefits will flow to the entity; and the costs incurred or to be incurred in respect of the transactions can be measured reliably.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

3. Accounting policies *(continued)*

Income tax

The taxation expense represents the aggregate amount of current and deferred tax recognised in the reporting period. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, tax is recognised in other comprehensive income or directly in equity, respectively.

Current tax is recognised on taxable profit for the current and past periods. Current tax is measured at the amounts of tax expected to pay or recover using the tax rates and laws that have been enacted or substantively enacted at the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date. Unrelieved tax losses and other deferred tax assets are recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits. Deferred tax is measured using the tax rates and laws that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

Foreign currencies

Foreign currency transactions are initially recorded in the functional currency, by applying the spot exchange rate as at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the exchange rate ruling at the reporting date, with any gains or losses being taken to the profit and loss account.

Intangible assets

Intangible assets are initially recorded at cost, and are subsequently stated at cost less any accumulated amortisation and impairment losses. Any intangible assets carried at revalued amounts, are recorded at the fair value at the date of revaluation, as determined by reference to an active market, less any subsequent accumulated amortisation and subsequent accumulated impairment losses.

Intangible assets acquired as part of a business combination are recorded at the fair value at the acquisition date.

Tangible assets

Tangible assets are initially recorded at cost, and subsequently stated at cost less any accumulated depreciation and impairment losses. Any tangible assets carried at revalued amounts are recorded at the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

An increase in the carrying amount of an asset as a result of a revaluation, is recognised in other comprehensive income and accumulated in equity, except to the extent it reverses a revaluation decrease of the same asset previously recognised in profit or loss. A decrease in the carrying amount of an asset as a result of revaluation, is recognised in other comprehensive income to the extent of any previously recognised revaluation increase accumulated in equity in respect of that asset. Where a revaluation decrease exceeds the accumulated revaluation gains accumulated in equity in respect of that asset, the excess shall be recognised in profit or loss.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

3. Accounting policies *(continued)*

Depreciation

Depreciation is calculated so as to write off the cost or valuation of an asset, less its residual value, over the useful economic life of that asset as follows:

Freehold property	-	straight line method over 40 years useful life
Plant and machinery	-	straight line method over 40 years useful life
Motor vehicles	-	15% reducing balance

Impairment of fixed assets

A review for indicators of impairment is carried out at each reporting date, with the recoverable amount being estimated where such indicators exist. Where the carrying value exceeds the recoverable amount, the asset is impaired accordingly. Prior impairments are also reviewed for possible reversal at each reporting date.

For the purposes of impairment testing, when it is not possible to estimate the recoverable amount of an individual asset, an estimate is made of the recoverable amount of the cash-generating unit to which the asset belongs. The cash-generating unit is the smallest identifiable group of assets that includes the asset and generates cash inflows that largely independent of the cash inflows from other assets or groups of assets.

For impairment testing of goodwill, the goodwill acquired in a business combination is, from the acquisition date, allocated to each of the cash-generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the company are assigned to those units.

Provisions

Provisions are recognised when the entity has an obligation at the reporting date as a result of a past event, it is probable that the entity will be required to transfer economic benefits in settlement and the amount of the obligation can be estimated reliably. Provisions are recognised as a liability in the statement of financial position and the amount of the provision as an expense.

Provisions are initially measured at the best estimate of the amount required to settle the obligation at the reporting date and subsequently reviewed at each reporting date and adjusted to reflect the current best estimate of the amount that would be required to settle the obligation. Any adjustments to the amounts previously recognised are recognised in profit or loss unless the provision was originally recognised as part of the cost of an asset. When a provision is measured at the present value of the amount expected to be required to settle the obligation, the unwinding of the discount is recognised as a finance cost in profit or loss in the period it arises.

Financial instruments

A financial asset or a financial liability is recognised only when the company becomes a party to the contractual provisions of the instrument.

Basic financial instruments are initially recognised at the transaction price, unless the arrangement constitutes a financing transaction, where it is recognised at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

3. Accounting policies *(continued)*

Financial instruments *(continued)*

Debt instruments are subsequently measured at amortised cost.

Where investments in non-convertible preference shares and non-puttable ordinary shares or preference shares are publicly traded or their fair value can otherwise be measured reliably, the investment is subsequently measured at fair value with changes in fair value recognised in profit or loss. All other such investments are subsequently measured at cost less impairment.

Other financial instruments, including derivatives, are initially recognised at fair value, unless payment for an asset is deferred beyond normal business terms or financed at a rate of interest that is not a market rate, in which case the asset is measured at the present value of the future payments discounted at a market rate of interest for a similar debt instrument.

Other financial instruments are subsequently measured at fair value, with any changes recognised in profit or loss, with the exception of hedging instruments in a designated hedging relationship.

Financial assets that are measured at cost or amortised cost are reviewed for objective evidence of impairment at the end of each reporting date. If there is objective evidence of impairment, an impairment loss is recognised in profit or loss immediately.

For all equity instruments regardless of significance, and other financial assets that are individually significant, these are assessed individually for impairment. Other financial assets are either assessed individually or grouped on the basis of similar credit risk characteristics.

Any reversals of impairment are recognised in profit or loss immediately, to the extent that the reversal does not result in a carrying amount of the financial asset that exceeds what the carrying amount would have been had the impairment not previously been recognised.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

3. Accounting policies *(continued)*

Defined benefit plans

The Company operates a defined benefit plan for certain employees. A defined benefit plan defines the pension benefit that the employee will receive on retirement, usually dependent upon several factors including but not limited to age, length of service and remuneration. A defined benefit plan is a pension plan that is not a defined contribution plan.

The liability recognised in the Balance sheet in respect of the defined benefit plan is the present value of the defined benefit obligation at the end of the balance sheet date less the fair value of plan assets at the balance sheet date (if any) out of which the obligations are to be settled.

The defined benefit obligation is calculated using the projected unit credit method. Annually the Company engages independent actuaries to calculate the obligation. The present value is determined by discounting the estimated future payments using market yields on high quality corporate bonds that are denominated in sterling and that have terms approximating to the estimated period of the future payments ("discount rate").

The fair value of the plan assets is measured in accordance with the FRS 102 fair value hierarchy and in accordance with the Company's policy for similarly held assets. This includes the use of appropriate valuation techniques.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to other comprehensive income. These amounts together with the return on plan assets, less amounts included in net interest, are disclosed as "Remeasurement of net defined benefit liability".

The cost of the defined benefit plan, recognised in profit or loss as employee costs, except where included in the cost of an asset, comprises: a) the increase in net pension liability arising from employee service during the period; and b) the cost of plan introductions, benefit changes, curtailments and settlements.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is recognised in profit or loss as a finance expense.

Defined contribution plans

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 payments obligations.

The contributions are recognised as an expense in the income statement when they fall due. Amounts not paid are shown in accruals as a liability in the Balance sheet. The assets of the plan are held separately from the Company in independently administered funds.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

4. Turnover

Turnover arises from:

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Aluminium production and associated activities	–	67,444
Shipping services	–	15,611
Sale of power	22,870	–
Commercial & other rentals	491	–
Royalties	89	–
Sale of livestock	104	–
Grants	288	–
	<u>23,842</u>	<u>83,055</u>

An analysis of turnover by the geographical markets that substantially differ from each other is given below:

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
United Kingdom	23,842	67,444
Overseas	–	15,611
	<u>23,842</u>	<u>83,055</u>

5. Other operating income

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Other operating income	–	1,110

6. Operating profit

Operating profit or loss is stated after charging/crediting:

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Depreciation of tangible assets	5,462	4,924
Gains on disposal of tangible assets	–	(107)
Impairment of trade debtors	5	–
Research and development expenditure written off	–	200
Foreign exchange differences	(21)	–
	<u></u>	<u></u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

7. Auditor's remuneration

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Fees payable for the audit of the financial statements	<u>35</u>	<u>35</u>

8. Staff costs

The average number of persons employed by the company during the period, including the directors, amounted to:

	30 Nov 17 No.	31 Dec 16 No.
Production staff	6	171
Admin & supportive staff	<u>92</u>	<u>–</u>
	<u>98</u>	<u>171</u>

The aggregate payroll costs incurred during the period, relating to the above, were:

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Wages and salaries	3,436	8,340
Social security costs	365	571
Other pension costs	<u>216</u>	<u>1,299</u>
	<u>4,017</u>	<u>10,210</u>

9. Other interest receivable and similar income

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Interest from group undertakings	–	428
Net finance income in respect of defined benefit pension plans	<u>277</u>	<u>582</u>
	<u>–</u>	<u>1,010</u>

10. Interest payable and similar expenses

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Unwinding of discount on provisions	<u>(219)</u>	<u>642</u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

11. Tax on profit

Major components of tax expense

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Current tax:		
UK current tax expense	–	2,278
Adjustments in respect of prior periods	–	3,192
Total current tax	–	5,470
Deferred tax:		
Origination and reversal of timing differences	–	(728)
Tax on profit	–	4,742

Reconciliation of tax expense

The tax assessed on the profit on ordinary activities for the period is lower than (2016: higher than) the standard rate of corporation tax in the UK of 19% (2016: 20%).

	Period from 1 Jan 17 to 30 Nov 17 £000	Year to 31 Dec 16 £000
Profit on ordinary activities before taxation	2,584	5,756
Profit on ordinary activities by rate of tax	491	1,151
Adjustment to tax charge in respect of prior periods	–	3,192
Utilisation of group relief	(491)	–
Changes in provision leading to a decrease in tax charge	–	399
Tax on profit	–	4,742

12. Dividends

	30 Nov 17 £000	31 Dec 16 £000
Dividends paid during the period	–	55,000

No interim dividend was paid during the year and the director does not recommend a final dividend.

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

13. Tangible assets

	Freehold property £000	Plant and machinery £000	Motor vehicles £000	Total £000
Cost				
At 1 January 2017	324,576	302,222	–	626,798
Additions	–	–	26	26
Disposals	(33,441)	(124,060)	–	(157,501)
At 30 November 2017	<u>291,135</u>	<u>178,162</u>	<u>26</u>	<u>469,323</u>
Depreciation				
At 1 January 2017	37,640	23,616	–	61,256
Charge for the period	1,709	3,749	4	5,462
At 30 November 2017	<u>39,349</u>	<u>27,365</u>	<u>4</u>	<u>66,718</u>
Carrying amount				
At 30 November 2017	<u>251,786</u>	<u>150,797</u>	<u>22</u>	<u>402,605</u>
At 31 December 2016	<u>286,936</u>	<u>278,606</u>	<u>–</u>	<u>565,542</u>

Freehold property and plant & machinery related to Kinlochleven and Lochaber hydropower plants were revalued on 16th December 2016. The revaluation was carried out by Grant Thornton UK LLP who assessed the fair values of both the Hydro power plants by using the discounted cash flow method based on their future expected earnings capacity, as both plants were operational at the time of revaluation. The total revalued amount disclosed in last year accounts was £565,000,000. The total carrying amount of the revalued assets at the time of revaluation was £69,792,831. There is no impairment provided on the revalued assets during the year as management is of the view that the current market values of the assets are not less than the current carrying values at the balance sheet date. There is a legal charge on all the above assets from the Scottish ministers as these are held as security against the loan reported in Simec Lochaber Hydropower Ltd, its immediate holding company.

14. Debtors

	30 Nov 17 £000	31 Dec 16 £000
Amounts owed by group undertakings	169,792	–
Deferred tax asset	1,435	1,084
Prepayments and accrued income	375	909
Other debtors	47,336	45,543
	<u>218,938</u>	<u>47,536</u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

15. Creditors: amounts falling due within one year

	30 Nov 17 £000	31 Dec 16 £000
Trade creditors	900	176
Amounts owed to group undertakings	1,880	–
Accruals and deferred income	581	808
Corporation tax	2,278	2,278
Social security and other taxes	1,814	542
Other creditors	148	–
	<u>7,601</u>	<u>3,804</u>

16. Provisions

	Rationalisation £000	Deferred tax (note 17) £000	Asset retirement obligations £000	Others £000	Total £000
At 1 January 2017	191	78,368	(2)	30	78,587
Unused amounts reversed	(191)	–	2	(30)	(219)
At 30 November 2017	<u>–</u>	<u>78,368</u>	<u>–</u>	<u>–</u>	<u>78,368</u>

The rationalisation provision covered ongoing costs of liabilities from plants that have been closed. The principal item included in the provision was the estimated discounted present value of environmental protection and pollution control required at the Company's closed Burntisland alumina plant. During the year, any unused provision has been reversed.

The other provisions were principally liabilities arising from a period when the Company was self insured for some limited employers' liability risks. Any remaining unused provision has been reversed.

17. Deferred tax

The deferred tax included in the statement of financial position is as follows:

	30 Nov 17 £000	31 Dec 16 £000
Included in debtors (note 14)	1,435	1,084
Included in provisions (note 16)	(78,368)	(78,368)
	<u>(76,933)</u>	<u>(77,284)</u>

The deferred tax account consists of the tax effect of timing differences in respect of:

	30 Nov 17 £000	31 Dec 16 £000
Revaluation of tangible assets	<u>(78,368)</u>	<u>(78,368)</u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

18. Employee benefits

Defined contribution plans

The amount recognised in profit or loss as an expense in relation to defined contribution plans was £215,795 (2016: £1,298,606).

Defined benefit plans

The company is a member of a multi-employer retirement benefit scheme, the GFG Alliance Lochaber Pension Scheme (previously the British Alcan Pension Plan). The scheme is operated for the current and ex-employees of SIMEC Lochaber Hydropower 2 Ltd and Liberty Aluminium Lochaber Limited, and has both a defined benefit (closed to new entrants) and a defined contribution section. The company is the principal sponsoring employer and Liberty Aluminium Lochaber Ltd became an associated employer of the scheme when the employees of the smelter business were transferred to Liberty Aluminium Lochaber Limited. The full disclosure of the defined benefit scheme relevant to both the entities has been provided in these financial statements.

The amounts recognised in the statement of financial position are as follows:

	30 Nov 17 £000	31 Dec 16 £000
Defined benefit pension plan asset	72,672	74,805
Defined benefit pension plan liability	(57,997)	(63,311)
Net defined benefit asset	<u>14,675</u>	<u>11,494</u>

The statement of financial position net defined benefit asset is determined as follows:

	30 Nov 17 £000	31 Dec 16 £000
Present value of defined benefit obligations	(57,997)	(63,311)
Fair value of plan assets	72,672	74,805
	<u>14,675</u>	<u>11,494</u>

Changes in the present value of the defined benefit obligations are as follows:

	30 Nov 17 £000
At 1 January 2017	63,311
Current service cost	920
Interest expense	1,513
Benefits paid	(5,218)
Contributions by plan participants	71
Remeasurements:	
Actuarial gains and losses	(2,600)
At 30 November 2017	<u>57,997</u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

18. Employee benefits *(continued)*

Changes in the fair value of plan assets are as follows:

	30 Nov 17
	£000
At 1 January 2017	74,805
Interest income	1,790
Benefits paid	(5,218)
Contributions by employer	516
Contributions by plan participants	71
Administration costs paid by the plan	(142)
Remeasurements:	
Actuarial gains and losses	850
At 30 November 2017	<u>72,672</u>

The total costs for the period in relation to defined benefit plans are as follows:

	30 Nov 17	31 Dec 16
	£000	£000
Recognised in profit or loss:		
Current service credit	(920)	(1,016)
Net interest expense	277	582
Administration costs paid by the plan	(142)	(295)
	<u>(785)</u>	<u>(729)</u>

The fair values of the major categories of plan assets are as follows:

	30 Nov 17	31 Dec 16
	£000	£000
Equity instruments	14,855	14,564
Property	3,990	3,662
Cash and cash equivalents	132	811
Gilts	31,689	34,453
Corporate bonds	22,006	21,315
	<u>72,672</u>	<u>74,805</u>

The return on plan assets is as follows:

	30 Nov 17	31 Dec 16
	£000	£000
Return on assets of benefit plan	<u>1,790</u>	<u>2,408</u>

The principal actuarial assumptions as at the statement of financial position date were:

	30 Nov 17	31 Dec 16
	%	%
Discount rate	2.70	2.70
Expected rate of salary increase	3.20	3.30
Inflation assumption	3.20	3.30
Future pension increases for pensions earned 1997-2006	<u>3.10</u>	<u>3.20</u>

Simec Lochaber Hydropower 2 Limited

Notes to the Financial Statements *(continued)*

Period from 1 January 2017 to 30 November 2017

19. Called up share capital

Issued, called up and fully paid

	30 Nov 17		31 Dec 16	
	No.	£000	No.	£000
Ordinary shares of £1 each	105,000,000	105,000	105,000,000	105,000

20. Reserves

The capital redemption reserve arose as a result of the company purchasing its own shares.

The profit and loss account represents the accumulated profits and losses reported by the company in the current and all previous years.

21. Related party transactions

The company has taken advantage of the exemption contained in FRS 102 and not disclosed transactions entered into with wholly-owned group companies.

At the year end, the company was owed £42,062,283 from SKG Global Pte Ltd.

During the year, the company sold electricity to Liberty Aluminium Lochaber Ltd (LAL) amounting to £23,842,348 (2016: Nil).

The company has also entered into a profit participation deed with LAL in which it has been agreed that the company will support LAL maintain its required EBITDA until 31st March 2021. During the year, £4,112,066 (2016: Nil) was transferred out to LAL under this profit sharing agreement. At the year end, the company was owed £3,774,406 (2016:£42,062,283) from LAL. Last year debtor owed from LAL is now owed from SKG Global Pte Ltd as disclosed above.

During the year, the company was also owed £1,500,000 from Simec Power 1 Ltd.

The related company mentioned above is part of the GFG Alliance, which encompasses entities under the common control of S K Gupta and his father P K Gupta.

22. Controlling party

The immediate parent undertaking as at year end is Simec Lochaber Hydropower Limited. The ultimate parent undertaking and controlling party is Simec Group Ltd incorporated in Hong Kong, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The Group's consolidated financial statements can be obtained from the registered office at Suite 2202-2204, Gloucester Tower, The Landmark Building, 11 Pedder Street, Central Hong Kong. The ultimate controlling party is Mr P K Gupta by virtue of 100% share holdings in the ultimate parent company.