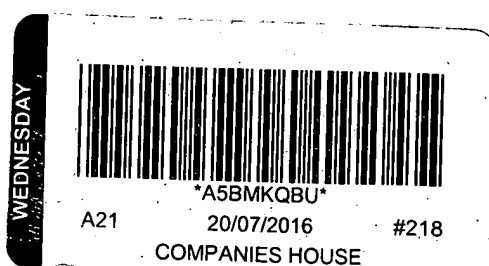


**Sembcorp Utilities (UK) Limited**

**Annual Report and financial statements**

**Registered number 4636301**

**31 December 2015**



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## Strategic Report

### Principal activities

The Company provides industrial solutions to its customers by delivering a range of integrated services. The principal elements are:

<b>Energy</b>	Generation and supply of heat and power from both renewable and fossil fuel sources, with analytical services, and the supply of water, and industrial gases.
<b>Onsite logistics</b>	Asset management services through the provision of integrated stores, warehousing, infrastructure and environmental services.

### Business model

Wilton International is one of the UK's largest process manufacturing sites and is a key component of the wider industrial platform of the Teesside chemical cluster. Wilton offers key infrastructure with the capacity to meet the requirements of the largest industrial users, and with a supportive planning regime remains a prime location for future development.

Sembcorp's business model is executed through three integrated business streams. At the core is a growing renewable energy portfolio. This is aligned with national energy policy and allows us to leverage our position and experience to maximise green benefits through the diversification of renewable fuels and feedstock, long term supply agreements and maximising operational outputs. Our traditional energy and utility supply is being constantly realigned to reflect ongoing difficult UK power market conditions and also a decline in customer heat demand. The aim is to retain generation and distribution assets of the right size and flexibility to meet the operational demands of the industrial customer base and where possible to take advantage of market positions through export of power.

The Onsite Logistics business provides core shared services both to Sembcorp and our customers including Site Management, effluent services and roads/estate management. In this business Sembcorp continues to support a number of development projects and companies with the aim of increased uptake of development land at Wilton to a wider industrial base.

### Business review and results

#### Performance

The results for the year and the previous year are as follows:

	2015 £000	2014 £000
Turnover	154,660	160,298
Gross profit (after exceptional credit totalling £2,707,000 (2014: £748,000))	16,316	8,813
Operating profit	13,657	4,446
Profit for the financial year	9,260	3,757
Operating profit margin	8.83%	2.77%

The directors are satisfied with the results for the year, given the difficult trading conditions in the UK energy sector, which have continued in 2016 to date.

## **Strategic Report** *(continued)*

### **Business review and results** *(continued)*

The biomass plant, Wilton 10, operated reliably throughout 2015, with only a small number of unplanned outages.

One major customer on Wilton site was taken offline in February 2015 and remained offline for the rest of the year, impacting on power and steam sales. This was an economic decision due to adverse market conditions. The remaining customers' heat and power demands have been similar to 2014.

During the year an ongoing insurance claim on the Wilton 10 asset dating back to 2008 was finally closed out. This resulted in a one-off gain of £2.7m in the financial year.

The Company recorded a profit for the year of £9.3m and paid a dividend of £33.5m. The balance sheet as at 31 December 2015 demonstrates that the financial position of the Company remains strong with net assets of £83.4 million (2014: £106.5 million).

#### *Key performance indicators*

The Company uses a number of financial and non financial KPIs to measure performance and these are reported both at board level and to employees at briefing sessions. These KPIs include plant availability, average achieved price for power and steam, delivery performance and a number of health and safety and employee related KPIs. The board considers that the Company has a very effective measurement and reporting system, consistent with its size and complexity.

As far as financial performance is concerned the key measurements used by the Company are turnover, operating profit margin percentage, earnings before interest and taxation (EBIT), return on carrying value (ROCV) and return on capital employed (ROCE).

## Strategic Report *(continued)*

### Business review and results *(continued)*

#### *Principal risks and uncertainties*

The principal issues facing the Company include:

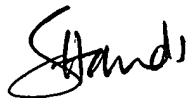
- the response of the Company's customers on the Wilton site to the global downturn. The Company provides industrial solutions to customers predominantly on the Wilton site in Teesside and as such the Company is reliant on these customers to continue in operational existence for the foreseeable future and to remain at Wilton. Due to the general difficult economic conditions being experienced throughout the global chemical sector, any restructuring or reduction in output by customers will impact the Company's future performance and results. This reliance has been reduced in part since 2008 with investment into assets such as the Wilton 10 biomass project and the recent 50MW condensing turbine.  
Whilst the current economic conditions create an element of uncertainty, the Company's forecasts and projections show that it is well placed to manage its business risks successfully, despite the economic uncertainty.
- potential exposure to movements in commodity prices, including power prices. This issue is further discussed in the Treasury Policies below; and
- legislative risks. The Company has to comply with a wide range of legislation and regulatory requirements including environmental and health and safety laws. The Company monitors its compliance with its regulatory and environmental obligations on an ongoing basis.

#### *Future developments*

The directors remain confident that the Company will maintain a satisfactory level of performance in the future. An ongoing programme of asset efficiency improvements and existing customer supply initiatives to improve flexibility and reliability will deliver further operational and financial benefits.

Construction continued in 2015 on a 440,000 tonnes a year energy from waste facility at Wilton following financial closure in December 2013. SCI Group is working in partnership with a recycling and resource management Company, SITA, and the plant is expected to be operational in 2016.

Signed on behalf of the board



**S Hands**  
Director

Sembcorp UK Headquarters  
Wilton International  
Middlesbrough  
Cleveland  
TS90 8WS

28 JUNE 2016

## Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2015.

The Company is a wholly owned subsidiary of Sembcorp Utilities Pte Ltd, a Company incorporated in the Republic of Singapore and has its registered office at 30 Hill Street, #05-04, Singapore 179360.

### Treasury policies

The Company finances its activities with a combination of loans and cash. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including interest rate swaps and transactions to fix commodity prices. The purpose of these transactions is to manage the commodity and interest rate risks arising from the Company's operations and its sources of finance. The Company does not trade in financial instruments or enter into speculative commodity transactions. The main risks associated with the Company's financial assets and liabilities are set out below.

#### *Interest rate risk*

The Company's policy is to manage its cost of borrowing predominantly through fixed rate debt.

The inter-company loan attracts interest at variable rates. The Company uses interest rate swaps agreed with other parties to generate the desired interest profile, agreeing to exchange, at specified intervals, the difference between fixed rate and variable interest amounts calculated by reference to an agreed-upon notional principal. At the year end, 26% (2014: 50%) of the Company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this split given the loan is now inter-company.

#### *Credit risk*

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the Company enters into derivative or fixed price contracts requiring settlement by the other party.

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the Company's exposure to bad debts is not considered to be significant.

Levels of overdue debts are monitored closely by management. A process for alerting management to operations failing to meet monthly cash collection targets serves to reduce the likelihood of an unmanaged concentration of credit risk.

Company policies also restrict the counterparties with which derivative transactions or fixed price commodity transactions can be contracted. Management ensures that exposure is spread across a number of approved financial institutions.

#### *Liquidity risk*

The Company aims to mitigate liquidity risk by applying cash collection targets. Investment is carefully controlled, with authorisation limits operating up to board level and cash payback periods applied as part of the investment appraisal process. In this way the Company aims to maintain a good credit rating to facilitate fund raising.

The inter-company loan has no fixed repayment date and is available to the Company until such date both the Company and the inter-company loan provider agree to any repayment. Excess cash is only invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities fixed at no more than 6 months.

## **Directors' Report** *(continued)*

### **Treasury policies** *(continued)*

#### *Price risk*

The Company is potentially exposed to commodity price risk, in particular to movements in power prices. The Company seeks to manage its exposure to commodity price risk by entering into fixed price contracts where this is appropriate. As a result, exposures to changes in commodity prices are satisfactorily managed.

It is, and has been throughout the period under review, the Company's policy that no speculative trading in derivative financial instruments shall be undertaken.

### **Dividend**

Dividends paid during the year comprised a final ordinary share capital dividend of £13,514,000 in respect of the year ended 31 December 2014, plus a preference dividend of £149,000 and an interim ordinary share capital dividend of £19,851,000 in respect of the year ended 31 December 2015.

The directors do not recommend the payment of a final ordinary dividend in respect of the year ended 31 December 2015.

### **Directors**

The directors who held office during the year and up to the date of signing this report were as follows:

D S Annan (resigned 5 February 2016)  
S C Hands (appointed 5 February 2016)  
Tang Kin Fei  
Ng Meng Poh  
A Su-Min Wong (resigned 24 April 2015)  
M K Chin (appointed 30 April 2015)

All directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

### **Employees**

The Company places considerable value on the involvement of its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through formal and informal meetings and the Company intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

Applications for employment by disabled persons are always fully considered, bearing in mind the aptitudes of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the Company continues and that appropriate training is arranged. It is the policy of the Company that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

### **Political contributions**

The Company made no political contributions during the year (2014: £nil).

### **Disclosure of information to auditor**

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

## **Directors' Report** *(continued)*

### **Auditor**

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

By order of the board



**S Hands**  
*Director*

Sembcorp UK Headquarters  
Wilton International  
Middlesbrough  
Cleveland  
TS90 8WS

28 JUNE 2016



## **Statement of directors' responsibilities in respect of the Strategic Report, Directors' Report and the financial statements**

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 year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

Under Company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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



## KPMG LLP

Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX  
United Kingdom

### **Independent auditor's report to the members of Sembcorp Utilities (UK) Limited**

We have audited the financial statements of Sembcorp Utilities (UK) Limited for the year ended 31 December 2015 set out on pages 10 to 44. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice), including FRS 101 *Reduced Disclosure Framework*.

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.

#### **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 7, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 December 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

#### **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion 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.

**Independent auditor's report to the members of Sembcorp Utilities (UK) Limited** *(continued)*

**Matters on which we are required to report by exception**

We have nothing to report in respect of the following matters where 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.

*M. R. Thompson*

**Mick Thompson (Senior Statutory Auditor)**  
**for and on behalf of KPMG LLP, Statutory Auditor**  
*Chartered Accountants*  
Quayside House  
110 Quayside  
Newcastle upon Tyne  
NE1 3DX

*28 June* 2016

**Profit and Loss Account**  
*for the year ended 31 December 2015*

	<i>Note</i>	<b>2015 £000</b>	<b>2014 £000</b>
<b>Turnover</b>	<b>3</b>	<b>154,660</b>	<b>160,298</b>
Cost of sales [including exceptional credit of £2,707,000 (2014: credit of £748,000)]	<b>4</b>	<b>(138,344)</b>	<b>(151,485)</b>
<b>Gross profit</b>		<b>16,316</b>	<b>8,813</b>
Administrative expenses		<b>(4,097)</b>	<b>(5,940)</b>
Other operating income	<b>4</b>	<b>1,438</b>	<b>1,573</b>
<b>Operating profit</b>		<b>13,657</b>	<b>4,446</b>
Other income	<b>4</b>	<b>-</b>	<b>1,472</b>
Profit on sale of fixed assets	<b>4</b>	<b>-</b>	<b>1,485</b>
Other interest receivable and similar income	<b>8</b>	<b>99</b>	<b>114</b>
Other finance costs	<b>9</b>	<b>(209)</b>	<b>(574)</b>
Interest payable and similar charges	<b>10</b>	<b>(1,463)</b>	<b>(1,834)</b>
<b>Profit on ordinary activities before taxation</b>	<b>4-7</b>	<b>12,084</b>	<b>5,109</b>
Tax on profit on ordinary activities	<b>11</b>	<b>(2,824)</b>	<b>(1,352)</b>
<b>Profit for the financial year</b>	<b>23</b>	<b>9,260</b>	<b>3,757</b>

All of the results above are derived from continuing activities.

**Statement of Other Comprehensive Income**  
*for the year ended 31 December 2015*

	<b>2015 £000</b>	<b>2014 £000</b>
<b>Profit for the financial year</b>	<b>9,260</b>	<b>3,757</b>
<b>Other comprehensive income</b>		
<i>Items that will not be reclassified to profit or loss:</i>		
Remeasurement of defined benefit liability asset	<b>1,075</b>	<b>7,402</b>
Income tax on items that will not be reclassified to profit and loss	<b>(224)</b>	<b>(1,488)</b>
<b>Other comprehensive gain for the year</b>	<b>851</b>	<b>5,914</b>
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
Net change in fair value of hedges reclassified to profit or loss	<b>526</b>	<b>750</b>
Income tax on items that are or may be reclassified to profit or loss	<b>(104)</b>	<b>(152)</b>
<b>Other comprehensive income for the year, net of income tax</b>	<b>1,273</b>	<b>6,512</b>
<b>Total comprehensive income for the year</b>	<b>10,533</b>	<b>10,269</b>

**Balance Sheet**  
*at 31 December 2015*

	Note	2015 £000	2014 £000
<b>Fixed assets</b>			
Intangible assets	13	606	347
Tangible assets	14	103,659	117,439
Investment properties	15	4,026	4,026
Investments in Subsidiary	16	-	-
		<b>108,291</b>	<b>121,812</b>
<b>Current assets</b>			
Stocks	17	7,612	7,760
Debtors (including £nil (2014: £nil) due after more than one year)	18	24,435	18,559
Cash at bank and in hand		6,945	17,797
Cash held on deposit		10,000	22,000
		<b>48,992</b>	<b>66,116</b>
<b>Creditors: amounts falling due within one year</b>	19	<b>(27,448)</b>	<b>(28,793)</b>
<b>Net current assets</b>		<b>21,544</b>	<b>37,323</b>
<b>Total assets less current liabilities</b>		<b>129,835</b>	<b>159,135</b>
<b>Creditors: amounts falling due after more than one year</b>	20	<b>(30,842)</b>	<b>(32,009)</b>
<b>Provisions for liabilities</b>	21	<b>(12,948)</b>	<b>(14,692)</b>
<b>Net assets excluding pension liabilities</b>		<b>86,045</b>	<b>112,434</b>
<b>Pension liabilities</b>	25	<b>(2,656)</b>	<b>(5,972)</b>
<b>Net assets including pension liabilities</b>		<b>83,389</b>	<b>106,462</b>
<b>Capital and reserves</b>			
Called up share capital	22	30,967	30,967
Hedging reserve	23	(178)	(600)
Capital contribution reserve	23	(1,147)	(1,055)
Profit and loss account	23	53,747	77,150
<b>Shareholders' funds</b>		<b>83,389</b>	<b>106,462</b>

The balance sheet as at the date of transition, 1 January 2014, is presented in Note 29.

These financial statements were approved by the board of directors on **28 JUNE** 2016 and were signed on its behalf by:



**S Hands**  
Director

Company registered number: 4636301

**Statement of Changes in Equity**  
*for the year ended 31 December 2015*

	Share capital £000	Hedging reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2014	30,967	(1,198)	(925)	67,479	96,323
Profit for the year	-	-	-	3,757	3,757
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	7,402	7,402
Deferred tax arising on gain in the pension scheme	-	-	-	(1,488)	(1,488)
Net charge in relation to hedges	-	598	-	-	598
Total comprehensive income for the year	-	598	-	9,671	10,269
<i>Transactions with owners, recorded directly in equity</i>					
Dividends paid	-	-	-	-	-
Equity settled share based payment transactions	-	-	(130)	-	(130)
<b>At 31 December 2014</b>	<b>30,967</b>	<b>(600)</b>	<b>(1,055)</b>	<b>77,150</b>	<b>106,462</b>
Profit for the year	-	-	-	9,260	9,260
<b>Other comprehensive income</b>					
Remeasurement of defined benefit liability	-	-	-	1,075	1,075
Deferred tax arising on gain on the pension scheme	-	-	-	(224)	(224)
Net credit in relation to hedges	-	422	-	-	422
Total comprehensive income for the year	-	422	-	10,111	10,533
<i>Transactions with owners, recorded directly in equity</i>					
Dividends paid	-	-	-	(33,514)	(33,514)
Equity settled share based payment transactions	-	-	(92)	-	(92)
<b>At 31 December 2015</b>	<b>30,967</b>	<b>(178)</b>	<b>(1,147)</b>	<b>53,747</b>	<b>83,389</b>

## Notes

*(forming part of the financial statements)*

### 1 Accounting policies

Sembcorp Utilities (UK) Limited ("the Company") is a company incorporated and domiciled in the UK.

The Company is exempt by virtue of s401 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The amendments to FRS 101 (2014/15 Cycle) issued in July 2015 and effective immediately have been applied.

In preparing these financial statements, the Company applies the recognition measurement and disclosure requirements of International Financial Reporting Standards as adopted by the EU 'Adopted IFRS') but makes amendments where necessary in order to comply with the Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemption has been taken.

In the transition to FRS 101, the Company has applied IFRS 1 whilst ensuring that its assets and liabilities are measured in compliance with FRS 101. An explanation of how the transition to FRS 101 has affected the reported financial position and financial performance of the Company is provided in note 29.

The Company's parent undertaking, Sembcorp Utilities Pte Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Sembcorp Industries Limited are available to the public and may be obtained as detailed in note 28.

In these financial statements the Company has applied the exemptions available under FRS 101 in respect of the following disclosures:

- A cash flow statement and related notes;
- Comparative period reconciliations for share capital, tangible fixed assets and intangible assets;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRS's;
- Disclosures in respect of the compensation of key management personnel; and
- Disclosures of transactions with a management entity that provides key management personnel services to the Company.

As the consolidated financial statements of Sembcorp Utilities Pte Limited include the equivalent disclosures; the Company has also taken the exemptions under FRS 101 available in respect of the following disclosures:

- IFRS2 *Share based payments* in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 *Fair value measurement* and the disclosures required by IFRS 7 Financial instrument disclosures.

The Company proposes to continue to adopt the reduced disclosure framework of FRS 101 in its next financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements and in preparing an opening FRS 101 IFRS balance sheet at 1 January 2014 for the purposes of the transition to FRS 101.

Judgements made by the directors, in the application of these accounting policies that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 2.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.1 Measurement convention

The financial statements are prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, financial instruments classified as fair value through the profit or loss or as available-for-sale and liabilities for cash-settled share-based payments. Non-current assets and disposal groups held for sale are stated at the lower of previous carrying amount and fair value less costs to sell.

#### 1.2 Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The financial position of the Company, its cash flows, liquidity position, borrowing facilities and details surrounding the Company's objectives; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk are also described in the Strategic Report and Directors' Report.

The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company is expected to have a sufficient level of financial resources available through current facilities and therefore the directors believe that the Company is well placed to manage its business risks successfully despite the economic uncertainty.

#### 1.3 Foreign currency

Transactions in foreign currencies are translated to the Company's functional currencies at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined. Foreign exchange differences arising on translation are recognised in the profit and loss account except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised in other comprehensive income.

#### 1.4 Classification of financial instruments issued by the Company

Following the adoption of IAS 32, financial instruments issued by the Company are treated as equity only to the extent that they meet the following two conditions:

- (a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and
- (b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy.



## Notes (continued)

### 1 Accounting policies (continued)

#### 1.5 Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other debtors, cash and cash equivalents, loans and borrowings, and trade and other creditors.

##### *Trade and other debtors*

Trade and other debtors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

*Trade and other creditors* Trade and other creditors are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

##### *Investments in debt and equity securities*

Investments in subsidiaries are carried at cost less impairment.

##### *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

##### *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost using the effective interest method, less any impairment losses.

#### 1.6 Derivative financial instruments and hedging

##### *Derivative financial instruments*

Derivative financial instruments are recognised at fair value. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged (see below).

##### *Cash flow hedges*

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the hedging reserve. Any ineffective portion of the hedge is recognised immediately in the profit and loss account.

##### *Fair value hedges*

Where a derivative financial instrument is designated as a hedge of the variability in fair value of a recognised asset or liability or an unrecognised firm commitment, all changes in the fair value of the derivative are recognised immediately in the profit and loss account. The carrying value of the hedged item is adjusted by the change in fair value that is attributable to the risk being hedged (even if it is normally carried at cost or amortised cost) and any gains or losses on remeasurement are recognised immediately in the profit and loss account (even if those gains would normally be recognised directly in reserves).

##### *Hedging Activities*

The Company documents at the inception of the transaction the relationship between the hedging instruments and hedged items, together with the methods that will be used to assess the effectiveness of the hedge relationship as well as its risk management objective and strategies for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives designated as hedging instruments are highly effective in offsetting changes in fair value or cash flows of the hedged items.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.7 Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost or valuation less accumulated depreciation and provision for any impairment in value. Depreciation is provided on all tangible fixed assets, other than freehold land and assets under construction, at rates calculated to write off the cost, less estimated residual value, of each asset on a straight-line basis over its expected useful life, as follows:

Freehold buildings	20 years
Plant and equipment	3 - 20 years
Vehicles	3 - 5 years

Cost includes directly attributable finance costs.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Major boiler and pipeline overhauls, which extend the economic life of the assets in question, are capitalised and depreciated over the useful economic life to which the overhaul relates, being the period up to the next scheduled major overhaul.

Depreciation methods, useful lives and residual values are reviewed at each balance sheet date.

Leases in which the Company assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and less accumulated impairment losses. Lease payments are accounted for as described below.

#### 1.8 Intangible assets, goodwill and negative goodwill

##### Negative goodwill

Negative goodwill arising on business combinations in respect of acquisitions is included within fixed assets and credited immediately to the profit and loss reserve. Any excess exceeding the fair value of non-monetary assets acquired shall be recognised in profit or loss in the periods expected to benefit.

##### Research and development

Expenditure on research activities is recognised in the profit and loss account as an expense as incurred.

Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Company intends and has the technical ability and sufficient resources to complete development, future economic benefits are probable and if the Company can measure reliably the expenditure attributable to the intangible asset during its development. Development activities involve a plan or design for the production of new or substantially improved products or processes. The expenditure capitalised includes the cost of materials, direct labour and an appropriate proportion of overheads and capitalised borrowing costs. Other development expenditure is recognised in the profit and loss account as an expense as incurred. Capitalised development expenditure is stated at cost less accumulated amortisation and less accumulated impairment losses.

##### Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the profit and loss account as an expense as incurred.

Other intangible assets that are acquired by the Company are stated at cost less accumulated amortisation and less accumulated impairment losses.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.8 Intangible assets, goodwill and negative goodwill (continued)

##### *Carbon trading*

Carbon allowances received by the Company are accounted for using the 'net liability' method. This means that any surplus quantities of allowances above those which are forecast to be required for the Company's own use are accounted for as an intangible asset together with a related deferred income balance in the balance sheet at their estimated recoverable value. A liability would only crystallise when emissions are greater than the allowances granted.

The cost of an intangible asset acquired in a business combination is its fair value at the acquisition date.

##### *Amortisation*

Amortisation is charged to the profit and loss account on a straight-line basis over the estimated useful lives of intangible assets unless such lives are indefinite. Intangible assets with an indefinite useful life and goodwill are systematically tested for impairment at each balance sheet date. Other intangible assets are amortised from the date they are available for use.

#### 1.9 Renewable Obligations Certificates (ROCs) and Renewable Levy Exemption Certificates (RLECs)

The Company is able to claim ROCs and RLECs from the Office of Gas and Electricity Markets ("OFGEM") as a result of burning renewable fuels. ROCs and RLECs are accounted for in accordance with the principles of SSAP 4 ("Accounting for government grants") and are recognised once the Company has met the conditions attaching to their receipt and there is reasonable assurance that these will be received. A market exists for the sale of ROCs and RLECs. ROCs and RLECs are recorded at market value and included within stock in the balance sheet where the Company has entered into an agreement with a third party for their subsequent sale. Income from the sale of ROCs and RLECs is credited to turnover once the risks and rewards of ownership have been transferred to a third party. RLECs have been withdrawn permanently effective from August 2015 and therefore nil value is associated with RLECs as from that date.

#### 1.10 Investment properties

Investment properties are properties which are held either to earn rental income or for capital appreciation or for both. Investment properties are stated at cost less accumulated depreciation and accumulated impairment where applicable.

#### 1.11 Government grants

Capital based government grants are included within accruals and deferred income in the balance sheet and credited to the profit and loss account over the estimated useful economic lives of the assets to which they relate.

#### 1.12 Stocks

Stocks are stated at the lower of cost and net realisable value. In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used. Net realisable value is based on estimated selling prices less further costs expected to be incurred.

#### 1.13 Impairment excluding stocks and deferred tax assets

##### *Financial assets (including trade and other debtors)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.13 Impairment excluding stocks and deferred tax assets (continued)

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. For financial instruments measured at cost less impairment an impairment is calculated as the difference between its carrying amount and the best estimate of the amount that the Company would receive for the asset if it were to be sold at the reporting date. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

#### Non-financial assets

The carrying amounts of the Company's non-financial assets, other than investment property, stocks and deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill, and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year at the same time.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business combination, for the purpose of impairment testing, is allocated to cash-generating units, or ("CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes. Goodwill acquired in a business combination is allocated to groups of CGUs that are expected to benefit from the synergies of the combination.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a *pro rata* basis.

An impairment loss in respect of goodwill is not reversed if and only if the reasons for the impairment have ceased to apply.

In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the assets' carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

#### 1.14 Employee benefits

##### Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which the Company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an expense in the profit and loss account in the periods during which services are rendered by employees.

##### Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.14 Employee benefits (continued)

determine its present value, and the fair value of any plan assets (at bid price) are deducted. The Company determines the net interest on the net defined benefit liability/(asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the net defined benefit liability/(asset).

The discount rate is the yield at the reporting date on bonds that have a credit rating of at least AA that have maturity dates approximating the terms of the Company's obligations and that are denominated in the currency in which the benefits are expected to be paid.

Remeasurements arising from defined benefit plans comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest). The Company recognises them immediately in other comprehensive income and all other expenses related to defined benefit plans in employee benefit expenses in profit or loss.

When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised immediately in profit or loss when the plan amendment or curtailment occurs.

The calculation of the defined benefit obligations is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Company, the recognised asset is limited to the present value of benefits available in the form of any future refunds from the plan or reductions in future contributions and takes into account the adverse effect of any minimum funding requirements.

##### *Short-term benefits*

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### *Termination benefits*

Termination benefits are recognised as an expense when the Company is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date, or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognised as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting date, then they are discounted to their present value.

##### *Share-based payment transactions*

Share-based payment arrangements in which the Company receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payment transactions, regardless of how the equity instruments are obtained by the Company.

The grant date fair value of share-based payments awards granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period in which the employees become unconditionally entitled to the awards. The fair value of the awards granted is measured using an option valuation model, taking into account the terms and conditions upon which the awards were granted. The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date. For share-based payment awards with non-vesting conditions, the grant date fair value of the share-based payment is measured to reflect such conditions and there is no true-up for differences between expected and actual outcomes.

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.14 Employee benefits (continued)

share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

#### 1.15 Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, that can be reliably measured and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects risks specific to the liability.

#### 1.16 Turnover

Turnover represents amounts receivable for utilities and services provided in the normal course of business, net of VAT and other sales-related taxes. Revenue from the sale of power, steam and water is recognised at the point when delivery is made to the customer. Revenue from long term contracts is recognised in line with the value of work performed. Where the contract outcome cannot be measured reliably, revenue is recognised only to the extent of the expenses being recoverable.

#### 1.17 Expenses and Income

##### *Operating lease payments*

Payments (excluding costs for services and insurance) made under operating leases are recognised in the profit and loss account on a straight-line basis over the term of the lease. Lease incentives received are recognised in the profit and loss account as an integral part of the total lease expense.

##### *Interest receivable and Interest payable*

Interest payable and similar charges include interest payable, finance charges on shares classified as liabilities and finance leases recognised in profit or loss using the effective interest method, unwinding of the discount on provisions, and net foreign exchange losses that are recognised in the profit and loss account (see foreign currency accounting policy). Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that takes a substantial time to be prepared for use, are capitalised as part of the cost of that asset. Other interest receivable and similar income include interest receivable on funds invested and net foreign exchange gains.

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

#### 1.18 Dividend Income

Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

#### 1.19 Taxation

Tax on the profit or loss for the year comprises current and deferred tax. Tax is recognised in the profit and loss account except to the extent that it relates to items recognised directly in equity or other comprehensive income, in which case it is recognised directly in equity or other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

## Notes (continued)

### 1 Accounting policies (continued)

#### 1.19 Taxation (continued)

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### 1.20 Debt issue costs

Debt issue costs are recognised in the profit and loss account over the term of the relevant debt at a constant rate on the carrying amount. Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the debt issue costs charged to the profit and loss account in respect of the accounting period.

#### 1.21 Share based payments

##### Share Option Plan

The share option programme allows employees to acquire shares of the penultimate parent Company, Sembcorp Industries Limited. The fair value of employee services received in exchange for grant of the options is recognised as an employee expense with a corresponding increase in capital and reserves. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting.

##### Performance Share Plan and Restricted Share Plan

The fair value of equity related compensation is measured using the Monte Carlo simulation method as at the date of the grant. This model takes into account the probability of achieving the performance conditions in the future. The fair value of the compensation cost is measured at grant date and amortised over the service period to which the performance criteria relates and the period during which the employees become unconditionally entitled to the shares. The compensation cost is charged to profit and loss with a corresponding increase in equity on a basis that fairly reflects the manner in which the benefits will accrue to the employee under the plan over the service period to which the performance period relates.

The Company has taken advantage of the transitional provision of FRS 20 so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

#### 1.22 Dividends on shares presented within shareholders' funds

Dividends are only recognised as a liability at that date to the extent that they are declared prior to the year end. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

### 2 Significant accounting judgements and key sources of estimation uncertainty

Judgements and estimates are required in the process of applying the Company's accounting policies based on available information, which may have a significant effect on the financial statements or a significant risk of material adjustment in the following year. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and only future periods affected.

Key areas of judgement and sources of estimation uncertainty:

- Carrying value of tangible fixed assets and intangible assets

The depreciation and amortisation charges, and hence the carrying amount of tangible fixed assets and intangible assets are determined in the estimated useful economic lives of the assets. These estimates are based on advice and the Company's experience of similar assets.

Notes *(continued)*

**2 Significant accounting judgements and key sources of estimation uncertainty (continued)**

- Provisions for recoverability of trade debtors

Bad debt provisions for the recoverability of trade debtors are estimated based on experience of recovery of outstanding debts and knowledge of individual customers.

- Defined benefit pension obligations

Determining the Company's defined benefit pension scheme obligations and scheme assets requires assumptions to be made including price inflation, mortality and other demographic assumptions. These assumptions are largely dependent on factors outside of the Company's control, further details are set out in note 25.

**3 Analysis of turnover**

All turnover and profit/ (loss) arises from the principal activities of the Company, which are carried out in the United Kingdom.

**4 Other operating income and expenses**

	2015 £000	2014 £000
<i>Included in profit/loss are the following:</i>		
Depreciation and other amounts written off tangible fixed assets:		
Owned	18,745	24,603
Leased	8	8
Hire of plant and machinery	241	234
Hire of other assets – operating leases	80	80
Management fees charged by parent undertaking	681	361
Operating lease rentals receivable – land and buildings	(1,438)	(1,573)
Other income	-	(1,472)
Profit on disposal of tangible fixed assets	-	(1,485)
	<hr/>	<hr/>

Other income in 2014 relates to profit on disposal of the asset protection business.

	2015 £000	2014 £000
<i>Exceptional items (included within cost of sales):</i>		
Restructuring provision	-	(748)
Insurance claim	(2,707)	-
	<hr/>	<hr/>

During the year an ongoing insurance claim on the Wilton 10 asset dating back to 2008 was finally closed out. This resulted in a one-off gain of £2,707,000 in the financial year.

In 2014 there was a release of restructuring provision (£748,000) following completion of the exercise.

**5 Auditor's remuneration:**

The Company paid the following amounts to its auditors in respect of the audit of the financial statements and for other services provided to the Company.

	2015 £000	2014 £000
Audit of these financial statements	90	90
Amounts receivable by the auditor and its associates in respect of:		
All other services	-	-
	<hr/>	<hr/>



## Notes (continued)

### 6 Remuneration of directors

	2015 £000	2014 £000
Directors' emoluments	140	136
Amounts receivable under long term incentive schemes	54	53
Company contribution to money purchase pension scheme	32	29
	<u>226</u>	<u>218</u>

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director were £194,000 (2014: £189,000) and Company pension contributions of £32,000 (2014: £29,000) were made to a money purchase scheme on his behalf.

	Number of directors	
	2015	2014
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	1	1
	<u>1</u>	<u>1</u>

All directors benefited from qualifying third party indemnity provisions in place during the financial year.

### 7 Staff numbers and costs

The average number of persons employed by the Company (including directors) during the year, analysed by category, was as follows:

	Number of employees	
	2015	2014
Operating	119	213
Administration	39	54
	<u>158</u>	<u>267</u>

The aggregate payroll costs of these persons were as follows:

	2015 £000	2014 £000
Wages and salaries	7,233	12,616
Share based payments (note 26)	139	291
Social security costs	796	1,162
Contributions to defined contribution plans (note 25)	758	1,105
Credit related to defined benefit plans (note 25)	(1,700)	-
	<u>7,226</u>	<u>15,174</u>

All employees were based in the UK.

**Notes** *(continued)*

**8 Other interest receivable and similar income**

	2015 £000	2014 £000
On amounts receivable from group undertakings	-	35
Bank interest receivable	99	79
	<u>99</u>	<u>114</u>

**9 Other finance cost**

	2015 £000	2014 £000
Expected return on pension scheme assets	3,933	4,030
Interest on pension scheme liabilities	(4,142)	(4,604)
	<u>(209)</u>	<u>(574)</u>

**10 Interest payable and similar charges**

	2015 £000	2014 £000
On amounts payable to group undertakings	1,314	1,685
Finance costs on shares classified as liabilities	149	149
	<u>1,463</u>	<u>1,834</u>

## Notes (continued)

### 11 Taxation

#### Recognised in the profit and loss account

	2015 £000	£000	2014 £000	£000
<i>UK corporation tax</i>				
Current tax on income for the period	4,669		4,544	
Adjustments in respect of prior periods	(142)		235	
	<hr/>		<hr/>	
Total current tax		4,527		4,779
<i>Deferred tax (see note 21)</i>				
Reversal of timing differences	(1,741)		(3,142)	
Adjustment in respect of previous years	38		(285)	
	<hr/>		<hr/>	
Total deferred tax		(1,703)		(3,427)
		<hr/>		<hr/>
Tax on profit on ordinary activities		2,824		1,352
		<hr/>		<hr/>

#### Income tax recognised in other comprehensive income

	2015 £000	2014 £000
Remeasurement of defined benefit liability/asset	224	1,488
Net change in fair value of hedges reclassified to profit or loss	104	152
	<hr/>	<hr/>
	328	1,640
	<hr/>	<hr/>

For the year ended 31 December 2015, the Company was subject to UK corporation tax at a rate of 21% during the 3 months to 31 March 2015 and 20% from 1 April 2015 to 31 December 2015, giving an average rate for the year of 20.25% (2014: 21.5%).

## Notes (continued)

### 11 Taxation (continued)

#### *Factors affecting the tax charge for the current period*

The current tax charge for the period is higher (2014: higher) than the standard rate of corporation tax in the UK, 20.25% (2014: 21.5%). The differences are explained below.

	2015 £000	2014 £000
<b>Reconciliation of effective tax rate</b>		
Profit for the year	9,260	3,757
Total tax expense	2,824	1,352
Profit excluding taxation	12,084	5,109
Tax using UK corporation tax rate of 20.25% (2014: 21.5%)	2,447	1,098
<i>Effects of:</i>		
Finance charge on shares classified as liabilities	30	32
Expenses not deductible for tax purposes and other permanent differences	221	(47)
Chargeable gains	-	281
Difference in tax rate	28	391
Other short term timing differences	202	(353)
Adjustments to tax charge in respect of previous periods	(104)	(50)
Total tax expense (see above)	2,824	1,352

#### *Factors that may affect future current and total tax charges*

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax liability at 31 December 2015 has been calculated based on these rates. An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This will reduce the Company's future current tax charge accordingly and reduce the deferred tax liability at 31 December 2015.

### 12 Dividends

The aggregate amount of dividends comprises:

	2015 £000	2014 £000
Final dividends paid in respect of prior year but not recognised as liabilities in year	13,514	-
Interim dividends paid in respect of the current year	20,000	149
Aggregate amount of dividends paid in the financial year	33,514	149

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil (2014: £13,514,000).

## Notes (continued)

### 13 Intangible fixed assets

	Carbon trading certificates £000
<b>Cost</b>	
At beginning of year	347
Additions	259
	<hr/>
At end of year	606
	<hr/>
<b>Amortisation</b>	
At beginning of year	-
Credited in year	-
	<hr/>
At end of year	-
	<hr/>
<b>Net book value</b>	
At 31 December 2015	606
	<hr/>
At 31 December 2014	347
	<hr/>

### 14 Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Vehicles £000	Assets under construction £000	Total £000
<b>Cost or valuation</b>					
At beginning of year	14,491	295,167	428	1,473	311,559
Additions	-	-	-	4,973	4,973
Disposals	-	-	-	-	-
Transfers between items	-	1,394	-	(1,394)	-
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	14,491	296,561	428	5,052	316,532
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Depreciation</b>					
At beginning of year	3,873	189,822	425	-	194,120
Disposals	-	-	-	-	-
Charge for year	219	18,531	3	-	18,753
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At end of year	4,092	208,353	428	-	212,873
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>					
At 31 December 2015	10,399	88,208	-	5,052	103,659
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2014	10,618	105,345	3	1,473	117,439
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

## Notes (continued)

### 14 Tangible fixed assets (continued)

Included within land and buildings is leasehold land of £539,000 (2014: £548,000). The remaining land and buildings are freehold. Plant and equipment as at 31 December 2015 include capitalised interest of £1.48 million (2014: £1.48 million).

The Directors have reviewed the carrying amounts of tangible fixed assets at 31 December 2015 and do not believe them to be impaired.

### 15 Investment property

	2015 £000	2014 £000
Cost at beginning and end of the year	4,026	4,026
Aggregate depreciation thereon	-	-
	<hr/>	<hr/>
Net book value at beginning and end of the year	4,026	4,026
	<hr/>	<hr/>
On open market basis:		
Net book value	13,760	13,760
	<hr/>	<hr/>

Investment property relates to land. The last full valuation was performed at 30 September 2012 by Sanderson Weatherall Limited (Chartered Surveyors and Property Consultants). The valuation is based on open market value with vacant possession, in accordance with the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors.

### 16 Fixed asset investments

	Investment in subsidiary £
<i>Cost and net book value</i>	
At beginning and end of year	2
	<hr/>

The Company has one 100% owned subsidiary Company, Wilton Energy Limited incorporated in the UK, whose principal activity is selling electricity.

### 17 Stocks

	2015 £000	2014 £000
Raw materials	823	1,709
Engineering spares	1,998	2,038
Renewable obligation certificates	4,791	4,013
	<hr/>	<hr/>
	7,612	7,760
	<hr/>	<hr/>

## Notes (continued)

### 18 Debtors

	2015 £000	2014 £000
Trade debtors	22,669	16,055
Amounts due from immediate holding company	5	1
Amounts owed by subsidiary undertaking	334	1,146
Prepayments and accrued income	1,427	1,357
	<u>24,435</u>	<u>18,559</u>

Trading balances owed by group and related parties are unsecured, interest free and paid in the normal course of events.

### 19 Creditors: amounts falling due within one year

	2015 £000	2014 £000
Shares classified as liabilities (note 22)	130	130
Trade creditors	7,893	6,528
Corporation tax payable	2,342	1,893
Other taxation and social security	131	1,570
Accruals and deferred income	16,728	17,922
Derivative liability – interest rate swap	224	750
	<u>27,448</u>	<u>28,793</u>

### 20 Creditors: amounts falling due after more than one year

	2015 £000	2014 £000
Shares classified as liabilities (note 22)	803	803
Loan from related corporation	29,500	29,500
Accruals and deferred income	539	1,706
	<u>30,842</u>	<u>32,009</u>

The loan from related corporation of £29.5 million (2014: £29.5 million) bore an effective interest rate of 2.80% (2014: 3.84%) per annum and were unsecured. The inter-company loan has no fixed repayment date and is available to the Company until such date both the Company and the inter-company loan provider agree to any repayment.

The Company has issued letters of credit totalling £9.88 million (2014: £9.88 million) as required under the terms of its power trading and fuel purchasing arrangements.

## Notes (continued)

### 21 Provisions for liabilities

	Restructuring provision £000	Carbon provision £000	Deferred taxation £000	Total £000
At beginning of year	368	3	14,321	14,692
Credit to the profit and loss for the year	-	(1)	(1,703)	(1,703)
Charge to equity	-	-	328	328
Paid	(368)	-	-	(368)
At end of year	-	2	12,946	12,948

#### Deferred taxation assets and liabilities

##### Recognised deferred tax assets and liabilities

Recognised tax assets and liabilities are attributable to the following:

	Assets 2015 £000	2014 £000	Liabilities 2015 £000	2014 £000	Net 2015 £000	2014 £000
Tangible fixed assets	-	-	13,598	15,830	13,598	15,830
Investment Property	-	-	-	-	-	-
Intangible assets	-	-	-	-	-	-
Stocks	-	-	-	-	-	-
Interest-bearing loans and borrowings	(46)	(150)	-	-	(46)	(150)
Employee benefits	(522)	(1,194)	-	-	(522)	(1,194)
Share-based payments	-	-	-	-	-	-
Provisions	(84)	(165)	-	-	(84)	(165)
Tax value of loss carry-forwards	-	-	-	-	-	-
Other	-	-	-	-	-	-
Net tax (assets)/liabilities	(652)	(1,509)	13,598	15,830	12,946	14,321

##### Movement in deferred tax during the year:

	At beginning of year £000	Profit and loss account charge/ (credit) £000	Amounts included through income £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	15,830	(2,232)	-	13,598
Other short-term timing differences	(165)	81	-	(84)
Pensions	(1,194)	448	224	(522)
Hedge – Interest rate swap	(150)	-	104	(46)
Provision for liabilities (see above)	14,321	(1,703)	328	12,946



## Notes (continued)

### 21 Provisions for liabilities (continued)

Movement in deferred tax during the prior year:

	At beginning of year £000	Profit and loss account charge/ (credit) £000	Amounts included through income £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	19,169	(3,339)	-	15,830
Other short-term timing differences	(99)	(66)	-	(165)
Pensions	(2,660)	(22)	1,488	(1,194)
Hedge – Interest rate swap	(302)	-	152	(150)
	<hr/>	<hr/>	<hr/>	<hr/>
Provision for liabilities (see above)	16,108	(3,427)	1,640	14,321
	<hr/>	<hr/>	<hr/>	<hr/>

### 22 Called up share capital

	2015 £000	2014 £000
<i>Allotted, called up and fully paid</i>		
17,000,000 Ordinary shares of £1 each	17,000	17,000
14,900,000 1% cumulative redeemable preference shares of £1 each	14,900	14,900
	<hr/>	<hr/>
	31,900	31,900
	<hr/>	<hr/>
Shares classified as liabilities	933	933
Shares classified in shareholders' funds	30,967	30,967
	<hr/>	<hr/>
	31,900	31,900
	<hr/>	<hr/>

The preference shares are valued net of the fair value of the associate dividend stream of £0.933 million (2014: £0.933 million) which has been reclassified within creditors.

The preference shares are redeemable at par at the option of the Company. Profits of the Company available for distribution shall be used to pay dividends to the preference shareholders a fixed cumulative preferential dividend of 1 pence per share per annum.

On a distribution of assets of the Company among its members on a winding up, each preference shareholder will be entitled in priority to any holder of any other class of shares to receive an amount equal to the aggregate of the capital paid up on such preference shares together with any arrears of the preference dividend.

The preference shares carry no votes at meetings unless the dividend thereon is six months or more in arrears or the business of the meeting includes a winding up of the Company or reducing its share capital, in which event each holder will be entitled to one vote on a show of hands or one vote per share on a poll.

## Notes (continued)

### 23 Reserves

	Capital contribution reserve £000	Hedging reserve £000	Profit and loss account £000	Total £000
At beginning of year	(1,055)	(600)	77,150	75,495
Profit for the year	-	-	9,260	9,260
Dividends on shares classified in shareholders' funds	-	-	(33,514)	(33,514)
Equity settled share based payments (note 26)	139	-	-	139
Recharge by the ultimate parent undertaking	(231)	-	-	(231)
Remeasurement of defined benefit liability	-	-	1,075	1,075
Net credit in relation to hedges	-	526	-	526
Income tax on other comprehensive income	-	(104)	(224)	(328)
<b>At end of year</b>	<b>(1,147)</b>	<b>(178)</b>	<b>53,747</b>	<b>52,422</b>

Certain employees of the Company are eligible for share options and share awards in the ultimate parent undertaking, Sembcorp Industries Limited. These share options are awarded directly by the ultimate parent undertaking, which requires the Company to make a payment to reimburse it for the granting of these rights. Further details in respect of the share-based payment plans are included in note 26.

### 24 Commitments

(a) Capital commitments at the end of the financial year for which no provision has been made, are as follows:

	2015 £000	2014 £000
Contracted	4,481	3,892

(b) Annual commitments under non-cancellable operating leases are as follows:

	2015 Other £000	2014 Other £000
Operating leases which expire:		
Within one year	27	14
In the second to fifth years inclusive	2	16
	29	30

### 25 Pension scheme

#### Defined contribution pension scheme

The Company operates a defined contribution pension scheme, the Sembcorp Stakeholder Pension Scheme. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £758,000 (2014: £1,105,000).

There were no outstanding or prepaid contributions at either the beginning or end of the financial year.

## Notes (continued)

### 25 Pension scheme (continued)

#### Defined benefit pension scheme

The Company provides pension arrangements to approximately one third of full time employees through a defined benefit scheme, the Sembcorp Utilities Teesside Pension Scheme, and the related costs are assessed in accordance with the advice of professionally qualified actuaries. The pension scheme is funded by the payment of contributions to separately administered trust funds.

The scheme has been closed to new members since January 1999. The scheme was also closed to future accrual with effect from 31 March 2010 and for active members of the scheme the link to salary was removed. Active members are entitled to join the Sembcorp Stakeholder Pension Scheme.

The numbers shown below have been based on calculations carried out by a qualified independent actuary to take account of the requirements of IAS 19 in order to assess the liabilities of the scheme at 31 December 2015. The scheme's assets are stated at their market values at 31 December 2015.

Employer contributions in relation to deficit contributions over the accounting period, amounted to £750,000 (2014: £500,000). Employer contributions were paid at the rate of 13.1% of Pensionable Pay until 31 March 2010.

The valuation used for IAS 19 disclosures has been based on a full assessment of the liabilities of the Sembcorp Utilities Teesside Pension Scheme as at 31 March 2011. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

The information disclosed below is in respect of the Sembcorp Utilities Teesside Pension Scheme as a whole.

	2015 £000	2014 £000
Total defined benefit liability	(110,678)	(115,583)
Defined benefit asset	108,022	109,611
	<hr/>	<hr/>
Total employee benefits	(2,656)	(5,972)
	<hr/>	<hr/>

**Notes (continued)**

**25 Pension scheme (continued)**

*Movements in net defined benefit liability/asset*

	Defined benefit obligation		Fair value of plan assets		Net defined benefit (liability)/asset	
	2015 £000	2014 £000	2015 £000	2014 £000	2015 £000	2014 £000
Balance at 1 January	(115,583)	(106,556)	109,611	93,257	(5,972)	(13,299)
<b>Included in profit or loss</b>						
Current service cost	-	-	-	-	-	-
Past service credit	1,700	-	-	-	1,700	-
Interest (cost)/income	(4,142)	(4,604)	3,933	4,030	(209)	(574)
	<u>(2,442)</u>	<u>(4,604)</u>	<u>3,933</u>	<u>4,030</u>	<u>1,491</u>	<u>(574)</u>
<b>Included in OCI</b>						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from						
- Changes in demographic Assumptions	899	(970)	-	-	899	(970)
- Change in financial assumptions	817	(9,272)	-	-	817	(9,272)
- Experience adjustment	1,903	1,684	-	-	1,903	1,684
Return on plan assets excluding interest income	-	-	(2,544)	15,959	(2,544)	15,959
Effect of movements in exchange rates	-	-	-	-	-	-
	<u>3,619</u>	<u>(8,558)</u>	<u>(2,544)</u>	<u>15,959</u>	<u>1,075</u>	<u>7,401</u>
<b>Other</b>						
Contributions paid by the employer	-	-	750	500	750	500
Benefits paid	3,728	4,135	(3,728)	(4,135)	-	-
	<u>3,728</u>	<u>4,135</u>	<u>(3,728)</u>	<u>(4,135)</u>	<u>-</u>	<u>-</u>
<b>Balance at 31 December</b>	<u><b>(110,678)</b></u>	<u><b>(115,583)</b></u>	<u><b>108,022</b></u>	<u><b>109,611</b></u>	<u><b>(2,656)</b></u>	<u><b>(5,972)</b></u>

Cumulative actuarial gains/(losses) reported in the statement of comprehensive income gains and losses since the 2003 year end are £7,800,000 loss (2014: £8,875,000 loss).

## Notes (continued)

### 25 Pension scheme (continued)

The fair value of the plan assets and the return on those assets were as follows:

	2015 Fair value £000	2014 Fair value £000
Hedge funds	11,492	5,007
Equities	36,856	38,001
Government bonds	6,407	6,489
Corporate bonds	17,071	17,298
Gilts	35,575	36,502
Property	-	5,843
Other	621	471
	<b>108,022</b>	<b>109,611</b>
Expected return on plan assets	3,933	5,678
Actuarial (loss)/gain	(2,544)	14,311
Actual return on plan assets	<b>1,389</b>	<b>19,989</b>

At 31 December 2015, none of the fair value of scheme assets related to self-investment.

Sembcorp Utilities (UK) Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 December 2015. The total overall expected rate of return for 2014 and 2015 was 5.6% and 5.2% per annum respectively.

The principal assumptions (expressed as weighted averages) used by the independent qualified actuaries to calculate the liabilities under IAS 19 were as follows:

	2015 %	2014 %
Discount rate	3.8	3.7
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	3.1	3.0
- benefits accrued post May 2006	2.2	2.1
Future salary increases		
RPI Inflation	3.1	3.1
CPI Inflation	2.0	2.1

#### Mortality assumptions

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 65 will live on average for a further 21.4 years if they are male and for a further 24.4 years if they are female. For members who retire in 2035 at age 65 the assumptions are that they will live on average for a further 23.0 years after retirement if they are male and for a further 26.3 years after retirement if they are female.

## Notes (continued)

### 25 Pension scheme (continued)

#### Sensitivity analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarises how the impact on the defined benefit obligation at the end of the reporting period would have increased/ (decreased) as a result of a change in the respective assumptions by one percent.

	2015	2014
	£000	£000
Discount rate +1% p.a.	(17,149)	(17,841)
Inflation (RPI)	15,779	15,719

In valuing the liabilities of the pension fund at 31 December 2015, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2015 would have increased by £3,134,000 (2014 £3,328,000) before deferred tax.

The above sensitivities are based on the average duration of the benefit obligation determined at the date of the last full actuarial valuation at 31 March 2011 and are applied to adjust the defined benefit obligation at the end of the reporting period for the assumptions concerned. Whilst the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation to the sensitivity of the assumptions shown.

With effect from 31 March 2010 the defined benefit pension scheme was closed to future accrual. The Company has contributed £750,000 in 2015 (2014: £500,000), and expects to contribute £1,000,000, in deficit contributions, in the next financial year.

### 26 Employee share schemes

#### Share based payments

Share options in the penultimate parent company, Sembcorp Industries Ltd ("SCI"), are granted to certain employees within the Company. These share options are awarded directly by the ultimate parent undertaking.

SCI's Performance Share Plan ("SCI PSP 2010") and Restricted Share Plan ("SCI RSP 2010") (collectively, the "2010 Share Plans") were approved and adopted by SCI shareholders at an Extraordinary General Meeting held on 22 April 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by SCI shareholders at an Extraordinary General Meeting held on 5 June 2000 and expired in 2010.

The SCI RSP 2010 is an incentive scheme for directors and employees of SCI and its subsidiaries (the "SCI Group"), whereas the Performance Share Plan is aimed primarily at key executives of the SCI Group.

The 2010 Share Plans are intended to increase SCI's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling SCI to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of the SCI Group. The 2010 Share Plans will strengthen SCI's competitiveness in attracting and retaining talented key senior management and senior executives.

The SCI RSP 2010 is intended to apply to a broad base of senior executives as well as to the Non-Executive Directors of SCI, while the SCI PSP 2010 is intended to apply to a select group of key senior management. Generally, it is envisaged that the range of performance targets to be set under the SCI RSP 2010 and the SCI PSP 2010 will be different, with the latter emphasising stretched or strategic targets aimed at sustaining longer term growth.

## Notes (continued)

### 26 Employee share schemes (continued)

The 2010 Share Plans will provide incentives to high performing key senior management and senior executives to excel in their performance and encourage greater dedication and loyalty to the SCI group. Through the 2010 Share Plans, SCI will be able to motivate key senior management and senior executives to continue to strive for the Group's long-term shareholder value. In addition, the 2010 Share Plans aim to foster a greater ownership culture within the Group which align the interests of Participants with the interests of Shareholders, and to improve performance and achieve sustainable growth for SCI in the changing business environment.

The 2010 Share Plans use methods fairly common among major local and multinational companies to incentivise and motivate key senior management and senior executives to achieve pre-determined targets which create and enhance economic value for Shareholders. SCI believes that the 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 Share Plans cater principally to Group Executives, it is recognised that there are other persons who can make significant contributions to the Group through their close working relationship with the Group. Such persons include employees of associated companies over which SCI has operational control.

A Participant's awards under the 2010 Share Plans will be determined at the sole discretion of SCI's Committee. In considering an award to be granted to a Participant who the Committee may take into account, inter alia, the Participant's performance during the relevant period, and his capability, entrepreneurship, scope of responsibility and skill set.

The options are priced in Singapore dollars (S\$).

Total expense recognised for share based payments during the year ended 31 December 2015 is £139,000 (2014: £291,000).

Other information regarding the 2010 Share Plans and the expired Share Option Plan is as follows:

#### (a) Share Option Plan

Under the rules of the Share Option Plan, participants who ceased to be employed by SCI or the associated company by reason of ill health, injury or disability, redundancy, retirement at or after the legal retirement age, retirement before the legal retirement age, death, etc., or any other event approved by the Committee, may be allowed by the Committee to retain their unexercised options. The Committee may determine the number of shares comprised in that option which may be exercised and the period during which such option shall be exercisable, being a period not later than the expiry of the exercise period in respect of that option. Such option may be exercised at any time notwithstanding that the date of exercise of such option falls on a date prior to the first day of the exercise period in respect of such option.

Other terms and conditions regarding the Share Option Plan are as follows:

- i) The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited (SGX-ST) over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.
- ii) After the first 12 months of the lock-out period, SCI Group imposed a further vesting of 4 years for managers and above for retention purposes.
- iii) In 2015 and 2014, all options were settled by the issuance of treasury shares.
- iv) The options granted expire after 5 years for non-executive directors and associated company's employees, and 10 years for the employees of SCI Group. There are no outstanding share options for non-executive directors.
- v) All options will expire on 9 June 2016.

## Notes (continued)

### 26 Employee share schemes (continued)

#### Share based payments (continued)

Share options, granted to executives and senior managers of the Company, that existed at the end of the year were as follows:

Grant date	No. of share options at end of year	No. of share options at beginning of year	Exercise price (S\$)*	Exercise period
9 June 2006	18,000	18,000	2.52	10 June 2007 - 9 June 2016
	<u>18,000</u>	<u>18,000</u>		

\* The exercise prices for outstanding share options prior to 8 August 2006 were adjusted as a result of SCI's capital reduction and cash distribution exercise in 2006.

Share options exercised in 2015 and 2014 were all settled by way of issuance of treasury shares by SCI. Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was S\$3.81 (2014: S\$5.16).

The options outstanding at the year-end have an exercise price of S\$2.52 and a weighted average contractual life of 4 years.

#### (b) Restricted Share Plan

Under the Restricted Share Plan (SCI RSP 2010), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Total Assets and Group Profit from Operations for awards granted in 2015.

A minimum threshold performance must be achieved to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted shares to be delivered will range from 0% to 150% of the conditional restricted shares awarded.

The managerial participants of the SCI Group will be awarded restricted shares under SCI RSP 2010, while the non-managerial participants of the SCI Group will receive their awards in an equivalent cash value.

A specific number of restricted shares shall be awarded at the end of the two-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset. There is a further vesting period of three years after the performance period, during which one-third of the awarded shares are released each year to managerial participants. Non-managerial participants will receive the equivalent in cash at the end of the two-year performance cycle, with no further vesting conditions.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a beneficial ownership stake in the SCI Group, for the duration of their employment or tenure with the SCI Group. A maximum cap is set based on a multiple of the individual participant's Annual Base Salary. Any excess can be sold off, but in the event of a shortfall, they have a two calendar year period to meet the minimum percentage requirement.



## Notes (continued)

### 26 Employee share schemes (continued)

#### Share based payments (continued)

Restricted shares of SCI's shares, awarded to certain employees of the Company that existed at the end of the year were as follows:

Award year	No. of shares at end of year	No. of shares at beginning of year
2011	-	26,652
2012	26,250	66,300
2013	44,840	90,500
2014	47,200	47,200
2015	45,500	-
	<u>163,790</u>	<u>230,652</u>

The total number of restricted shares outstanding, including awards achieved but not released, as at end 2015, was 163,790 (2014: 230,652). Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 92,700 (2014: 154,412). Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 139,050 (2014: 231,618) restricted shares.

In 2015, additional 12,670 (2014: 53,650) restricted shares were awarded for the over-achievement of the performance targets for the performance period 2011 to 2012 (2014: 2011 to 2012).

The total expense recognised during the year in relation to this scheme was £139,000 (2014: £291,000).

### 27 Derivative financial instruments

#### Interest rate swaps

The Company has derivative financial instruments that it has recognised at fair value. The fair values of these instruments at the year-end were as follows, and recognised within creditors:

#### Derivatives used for hedging

	2015		2014	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Interest rate swaps (see note 19)	-	(224)	-	(750)

The Company's policy is to manage its cost of borrowing through a combination of variable and fixed rate debt. The Company uses interest rate swaps agreed with other parties to generate the desired interest profile, agreeing to exchange, at specified intervals, the difference between fixed rate and variable interest amounts calculated by reference to an agreed-upon notional principal. At the year-end, 26% (2014: 50%) of the Company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this split given the Company's high cash balance.

The fair values of interest rate swaps are the indicative amounts that the Company is expected to pay to terminate the swap with the swap counterparties at the balance sheet date.

The interest rate swap matures on 31 December 2016 and the contractual outflows are not expected to be significantly different to its current fair value at the balance sheet date.

## Notes (continued)

### 27 Derivative financial instruments (continued)

#### Commodity contracts

The Company has derivative financial instruments that it has not recognised at fair value. The fair values of these instruments at the year-end were as follows:

	2015		2014	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Commodity contracts	4,973	(4,744)	3,212	(196)

The Company is potentially exposed to commodity price risk, in particular to movements in power prices. The Company seeks to manage its exposure to commodity price risk by entering into fixed price contracts where this is appropriate. As a result, exposures to changes in commodity prices are satisfactorily managed.

The Company does not trade in financial instruments or enter into speculative commodity transactions.

### 28 Ultimate parent company and parent undertaking of larger group of which the Company is a member

The Company is a subsidiary undertaking of Sembcorp Utilities Pte Ltd, registered in Singapore, which in turn is a subsidiary of Sembcorp Industries Ltd.

The largest group in which the results of the Company are consolidated is that headed by Sembcorp Industries Ltd, registered in Singapore. The smallest group in which they are consolidated is that headed by Sembcorp Utilities Pte Ltd. The consolidated financial statements of these groups are available to the public and may be obtained from 30 Hill Street, #05-04, Singapore 179360.

The directors regard the ultimate controlling party to be Temasek Holdings (Private) Limited, a company incorporated in Singapore.

### 29 Transition to FRS 101

This is the first year the Company has prepared its financial statements in accordance with FRS 101. The accounting policies set out in note 1 have been applied in preparing these financial statements, for the year ended 31 December 2015 with comparatives for the year ended 31 December 2014 and the opening FRS 101 balance sheet at 1 January 2014 (the Company's date of transition).

The previous financial statements were prepared under the previous UK accounting framework (UK GAAP). An explanation of the transition from UK GAAP to FRS 101 and its effect on the Company's financial statements is set out in the following tables.

**Notes** *(continued)*

**29 Transition to FRS 101** *(continued)*

**Balance Sheet at Date of Transition**

**As at 1 January 2014**

	As previously reported	Effect of transition	FRS 101 1 January 2014
	£000	£000	£000
<b>Fixed assets</b>			
Negative goodwill	(2,649)	2,649	-
Intangible assets	336	-	336
Tangible assets	157,390	(14,602)	142,788
Investment property	-	4,026	4,026
Investments	-	-	-
	<u>155,077</u>	<u>(7,927)</u>	<u>147,150</u>
<b>Current assets</b>			
Stocks	9,086	-	9,086
Debtors (including due after more than one year)	25,347	-	25,347
Cash at bank and in hand	17,541	-	17,541
Cash held on deposit	-	-	-
	<u>51,974</u>	<u>-</u>	<u>51,974</u>
<b>Creditors: amounts falling due within one year</b>	<u>(28,646)</u>	<u>(1,513)</u>	<u>(30,159)</u>
<b>Net current assets</b>	<u>23,328</u>	<u>(1,513)</u>	<u>21,815</u>
<b>Total assets less current liabilities</b>	<u>178,405</u>	<u>(9,440)</u>	<u>168,965</u>
<b>Creditors: amounts falling due after more than one year</b>	<u>(39,303)</u>	<u>-</u>	<u>(39,303)</u>
<b>Provisions for liabilities</b>	<u>(21,220)</u>	<u>1,180</u>	<u>(20,040)</u>
<b>Net assets excluding pension liabilities</b>	<u>117,882</u>	<u>(8,260)</u>	<u>109,622</u>
<b>Pension liabilities</b>	<u>(10,639)</u>	<u>(2,660)</u>	<u>(13,299)</u>
<b>Net assets including pension liabilities</b>	<u>107,243</u>	<u>(10,920)</u>	<u>96,323</u>
<b>Capital and reserves</b>			
Called up share capital	30,967	-	30,967
Revaluation reserve	10,576	(10,576)	-
Hedging reserve	-	(1,198)	(1,198)
Capital contribution reserve	273	(1,198)	(925)
Profit and loss account	65,427	2,052	67,479
	<u>107,243</u>	<u>(10,920)</u>	<u>96,323</u>
<b>Shareholders' funds</b>	<u>107,243</u>	<u>(10,920)</u>	<u>96,323</u>

## Notes (continued)

### 29 Transition to FRS 101 (continued)

Reconciliation of equity at 31 December 2014

	As previously reported	Effect of transition	FRS 101
	£000	£000	£000
<b>Fixed assets</b>			
Negative goodwill	(2,032)	2,032	-
Intangible assets	347	-	347
Tangible assets	131,199	(13,760)	117,439
Investment properties	-	4,026	4,026
Investments	-	-	-
	129,514	(7,702)	121,812
<b>Current assets</b>			
Stocks	7,760	-	7,760
Debtors (including due after more than one year)	18,559	-	18,559
Cash at bank and in hand	17,797	-	17,797
Cash held on deposit	22,000	-	22,000
	66,116	-	66,116
<b>Creditors: amounts falling due within one year</b>	(28,028)	(765)	(28,793)
<b>Net current assets</b>	38,088	(765)	37,323
<b>Total assets less current liabilities</b>	167,602	(8,467)	159,135
<b>Creditors: amounts falling due after more than one year</b>	(32,009)	-	(32,009)
<b>Provisions for liabilities</b>	(14,407)	(285)	(14,692)
<b>Net assets excluding pension liabilities</b>	121,186	(8,752)	112,434
<b>Pension liabilities</b>	(4,778)	(1,194)	(5,972)
<b>Net assets including pension liabilities</b>	116,408	(9,946)	106,462
<b>Capital and reserves</b>			
Called up share capital	30,967	-	30,967
Revaluation reserve	9,734	(9,734)	-
Hedging reserve	-	(600)	(600)
Capital contribution reserve	143	(1,198)	(1,055)
Profit and loss account	75,564	1,586	77,150
<b>Shareholders' funds</b>	116,408	(9,946)	106,462

## Notes (continued)

### 29 Transition to FRS 101 (continued)

Reconciliation of profit for the year ended 31 December 2014

	As previously reported £000	Effect of transition £000	FRS 101 £000
<b>Turnover</b>	160,298	-	<b>160,298</b>
Cost of sales	(151,485)	-	<b>(151,485)</b>
<b>Gross profit</b>	<b>8,813</b>	-	<b>8,813</b>
Administrative expenses	(5,323)	(617)	<b>(5,940)</b>
Other operating income	1,573	-	<b>1,573</b>
<b>Operating profit</b>	<b>5,063</b>	<b>(617)</b>	<b>4,446</b>
Other income	1,472	-	<b>1,472</b>
Profit on sale of fixed assets	644	841	<b>1,485</b>
Other interest receivable and similar income	114	-	<b>114</b>
Other finance income	1,074	(1,648)	<b>(574)</b>
Interest payable and similar charges	(1,834)	-	<b>(1,834)</b>
<b>Profit on ordinary activities before taxation</b>	<b>6,533</b>	<b>(1,424)</b>	<b>5,109</b>
Tax on profit on ordinary activities	(1,840)	488	<b>(1,352)</b>
<b>Profit for the financial year</b>	<b>4,693</b>	<b>(936)</b>	<b>3,757</b>

#### Notes to the transitional reconciliations

Under FRS 101, the Company applies the recognition and measurement requirements of EU-adopted IFRS, but makes amendments where necessary in order to comply with the Companies Act 2006 as the financial statements are Companies Act accounts.

The key differences between the amounts previously reported under UK GAAP and those under FRS 101 are as follows:

#### Negative goodwill

Under UKGAAP, negative goodwill, being the excess of the fair value of assets and liabilities acquired over the costs of their acquisition, was capitalised and classified on the balance sheet as a negative fixed asset. It was amortised over the periods in which the non-monetary assets acquired are depreciated or sold.

Under FRS101, negative goodwill is recognised in the profit or loss at the date of acquisition. Negative goodwill of £2,032,000 has been removed and reclassified to the profit and loss reserve.

#### Tangible assets

Under UKGAAP, the value of investment properties was reviewed annually and revalued accordingly. The surplus or deficit on revaluation was transferred to the revaluation reserve.

Under FRS101, the investment properties are valued at historical cost, and therefore there is no revaluation reserve, the revaluation reserve of £9,734,000 has been removed from reserves and therefore the investment property valued at cost.

Investment properties have been disclosed separately – see note 15. They have been reclassified from tangible fixed assets as they are held for either to earn rental income or capital appreciation or both, they are classified as investment properties.

## **Notes** *(continued)*

### **29 Transition to FRS 101** *(continued)*

#### **Derivative liabilities**

Under UK GAAP, the fair value was disclosed in the notes as a derivative financial instrument but not recognised on the balance sheet.

Under FRS101, any non trading derivative financial instruments' fair value is classified as a derivative liability within creditors, see note 19, and the movement is classified in the hedging reserve. The non trading derivative for the Company is an interest rate swap which expires on 31 December 2016.

#### **Retirement benefit obligations**

Under FRS 17 'Retirement benefits' the deferred tax asset of £1,194,000 relating to the defined benefit pension deficit at 31 December 2014 was disclosed as a reduction to the pension liability on the balance sheet (2013: £2,660,000). Deferred tax assets are shown as a reduction to the deferred tax provision under IAS 19 'Employee Benefits'.

The Company recognises the defined benefit pension scheme assets and liabilities in full under IAS 19, as it reported previously. There are differences in the actuarial gain or loss due to the calculation of the current service cost, net interest charge and the treatment of the administrative costs. The result in increased costs for the Company in 2014 of £1,648,000

#### **Deferred tax**

The change in accounting treatment for derivative liabilities under FRS 101 as noted above, decreased the Company's deferred tax liability by £150,000 at 31 December 2014 (2013: £300,000).

The FRS 101 deferred tax adjustments relating to the difference between fixed assets book value and tax written down value resulted in an increase in the deferred tax liability at 31 December 2014 of £1,629,000 (2013: £1,780,000). This is due to the revaluation of fixed assets to market value for tax written down value at the date of acquisition under IAS.