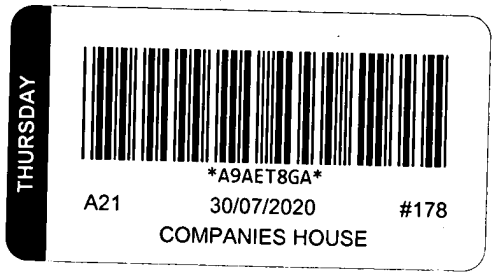
Sembcorp Utilities (UK) Limited

Annual report and financial statements

Registered number 4636301

31 December 2019



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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:

Energy	Generation and supply of multi-grade steam and power from renewable and gas-fired sources, and distribution and supply of natural gas.
Utilities	Supply of demineralised, potable and raw water, compressed air, industrial gases and provision of effluent services.
Onsite logistics	Asset management services through the provision of integrated stores, land, buildings and warehousing, roads and way leaves, infrastructure, analytical 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 the Company to leverage its position and experience to maximise green benefits through the diversification of renewable fuels and feedstock, long-term supply agreements and maximising operational outputs. The Company's traditional energy and utility supply is being constantly realigned to reflect ongoing UK power market conditions with the aim of optimising its generation and distribution assets of the right size and flexibility to meet the operational demands of the industrial customer base, leveraging the onsite generation benefits and where possible taking advantage of market positions through export of power.

The Onsite Logistics business provides core shared services both to the Company and its customers including Site Management, effluent services, roads/estate management and analytical and environmental services. In this business the Company continues to support a number of development projects, companies and organisations with the aim of increasing the 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:

	2019	2018
	£000	£000
Turnover	**194,971**	217,082
Gross profit	**23,693**	23,285
Operating profit – including an exceptional gain of £11,553,000 *(2018: £nil)*	**26,944**	19,656
Profit for the financial year – including an exceptional gain of £11,553,000 *(2018: £nil)*	**21,312**	15,614
Operating profit margin - excluding an exceptional gain of £11,553,000 *(2018: £nil)*	**7.89%**	9.05%

The directors are satisfied with the results for the year, given the current conditions in the UK energy sector.

Strategic report *(continued)*

Business review and results *(continued)*

The Company recorded a profit for the year of £21.3 million *(2018: £15.6 million)*, including an exceptional gain of £11.6 million relating to sale of the Company's interest in its freehold land under a 999 year long leasehold, and turnover for the year amounted to £195.0 million *(2018: £217.1 million)*. Excluding the exceptional gain, both profit for the year and turnover were down on the previous year due to a decrease in power and steam volumes as well as spreads.

The balance sheet as at 31 December 2019 demonstrates that the financial position of the Company remains strong with net assets of £80.6 million *(2018: £94.7 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 an 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).

Principal risks and uncertainties

The principal issues facing the Company include:

- the response of the Company's customers on the Wilton site to the changing European and global economic environment. 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. Restructuring or reduction in output by customers will impact the Company's future performance and results, although this reliance has been reduced through investment into assets such as the Wilton 10 biomass project, the 50MW condensing turbine and the 49MW energy from waste facility at Wilton, working in partnership with waste management company Suez. Commercial operation of this facility commenced at the end of December 2016.

  Whilst the economic environment will always 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 in the Directors' report.

- 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; and

- Brexit - whilst the Company does not anticipate Brexit will have a significant impact on the Company's ability to continue as a going concern, Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown.

Covid-19

The company, as part of the Sembcorp Energy UK Group, is committed to supporting efforts to limit and delay the spread of Coronavirus (Covid-19) and the wellbeing of its employees, customers, suppliers and the communities the Group serves remains its number one priority. The management of the Sembcorp Energy UK group have put in place a comprehensive Business Continuity Plan and a Pandemic Response Plan that are designed to guide us through the Covid-19 pandemic.

Strategic report *(continued)*

Business review and results *(continued)*

Covid-19 (continued)

We continue to monitor and assess the situation and are working in line with UK Government's latest guidance, and the aforementioned plans. Additionally, real-time learning and best practice is being shared globally with our wider Sembcorp communities. Further measures will be undertaken in proportional response to the UK threat levels. These include, but are not limited, to travel restrictions, remote working, physical separation and increased hygiene routines across all of our sites. We are regularly reiterating up-to-date Government and medical guidance to all employees. Analysis has been undertaken to identify critical roles and activities and additional measures have been put in place to protect our critical people and infrastructure. Detailed operational plans are prepared to support our workforce as we move through the pandemic, and in anticipation of increased threat levels. Due to the integrated nature of our business, and the just-in-time approach many of our critical suppliers adopt, we are working closely with all our critical suppliers to ensure we have minimally impacted supply chains.

Demand and forecasting is naturally being reviewed to understand the 2020 business expectations. To date the impact of the Covid-19 pandemic day-to-day operations or performance has been modest, with the Company's core assets and infrastructure remaining in operation. We will continue to work closely with all key parties during the difficult weeks and months ahead.

Future developments

The directors remain confident that the Company will maintain a satisfactory level of performance in the future. An ongoing investment programme of asset efficiency improvements and existing customer supply initiatives to improve flexibility and reliability will deliver further operational and financial benefits. The Company continues on the journey to leverage on the digitisation and innovation expertise within the wider Sembcorp group to create competitive advantage and strengthen its position in the UK energy market.

In addition, the Company has a proactive business development strategy to attract new customers to the Wilton Site, increasing the sustainability of the Company's business model at Wilton.

We have aligned our business strategy with the UK's carbon net-zero 2050 target. Our current asset portfolio is already well positioned to support this agenda and all of our future plans are being designed to make net-zero a reality.

At our Wilton site we are exploring the potential for Carbon Capture and Sequestration (CCUS), partnering with the Teesside industrial cluster (many of whom are our onsite customers) and the Oil and Gas climate Initiative (OGCI). Teesside has been identified by UK Government as a "crucible for CCUS" and we are planning to be a key contributor to these future developments.

Further afield, we are looking into investing in decarbonised generation across our wider network and we are investigating new technologies that can complement the growth in renewables.

Directors' section 172 obligation

The directors of the Company, as those of all UK companies, must act in accordance with a set of general duties, which are detailed in section 172 of the UK Companies Act 2006. A director of the Company must act in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its shareholders as a whole. As part of their induction, a director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent advisor.

The Company's strategy prioritises organic growth by selling services to its existing clients and by bringing new clients. To do this, the Company develops and maintains strong client relationships and through regular contact with its clients, ensures that the Company continues to offer high quality services.

The Company's suppliers are fundamental to its business operations. The Company values all of its relationships and has long-term contract with its key suppliers. To ensure the Company manages it suppliers effectively, it looks to reduce reliance on critical suppliers and mitigate risk. For operational suppliers the Company seeks to consolidate spend, reduce transactions and consumption, and aims to have competing suppliers to maximise efficiency.

Strategic report *(continued)*

Directors' section 172 obligation *(continued)*

The Company places considerable value on the involvement of its employees and has continued to keep them regularly informed on matters affecting them as employees and on the various factors affecting the performance of the Company. This is achieved through direct communications, 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.

The Company operates in regulated markets and looks to maintain positive and open relationships with the relevant regulators.

The Company is committed to making health and safety an integral part of its everyday business and culture, ensuring full compliance with all statutory requirements right across the Sembcorp group. Through growing and innovating its business solutions, the Company looks to minimise its environmental impact, ensuring the highest standard of environmental management.

The Company recognises the social and environmental impact on the communities around it as a result of the development and operation of its plants. Therefore, the Company aims to contribute to the local communities through a series of local charity initiatives and supporting employees on 'give back' days to invest in local community initiatives. One of the main intentions of the Company is that it provides "Energy for Good" in its broadest sense and to that end is looking to expand its community initiatives substantially in the next year and in particular on an energy related project with a charity close to one of its sites.

Signed on behalf of the board

Nauman Ahmad
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

27 July 2020

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2019.

The Company is a wholly owned subsidiary of Sembcorp Energy UK Limited, which is incorporated, domiciled and registered in England in the UK. Sembcorp Energy UK Limited is a subsidiary undertaking of Sembcorp Utilities Pte Ltd, which in turn is a subsidiary of Sembcorp Industries Ltd. Both Sembcorp Utilities Pte Ltd and Sembcorp Industries Ltd are registered and incorporated in the Republic of Singapore and have their 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 transactions to fix commodity prices. The purpose of these transactions is to manage the commodity price risk arising from the Company's operations. 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 is currently financed through an inter-company loan, which attracts interest at variable rates *(2018: variable rates)*.

The Company has used interest rate swaps in the past, however current loans are all variable in nature *(2018: variable)*, fixed on a six month rolling basis. The directors are comfortable with this position 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.

Price risk

The Company is exposed to commodity price risk, in particular to movements in power and gas 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.

Directors' report *(continued)*

Dividend

Dividends paid during the year comprise a preference dividend of £50,000 *(2018: £149,000)* in respect of the year ended 31 December 2019. An interim ordinary dividends of £40,000,000 was paid during the year in respect of the year ended 31 December 2019.

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2019.

Directors

The directors who held office during the year were as follows:

S C Hands	
N G McGregor	(resigned 30 November 2019)
N Ahmad	
S Narayanan	(resigned 12 February 2019)
G J Cockroft	(resigned 30 November 2019)
P D Tomlinson	(appointed 12 February 2019 and resigned 30 September 2019)
M G Scrimshaw	(appointed 1 December 2019)
C I McClay	(appointed 1 December 2019)
D K Thompson	(appointed 1 December 2019)

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 donations or incurred any political expenditure during the year *(2018: £nil)*.

Engagement with suppliers, customers and others in a business relationship with the Company

The Company's strategy prioritises organic growth by selling services to its existing clients and by bringing new clients into the Company. To do this, the Company develops and maintains strong client relationships and through regular contact with its clients, ensures that the Company continues to offer high quality services.

The Company's suppliers are fundamental to its business operations. The Company values all of its relationships and has long-term contract with its key suppliers. To ensure the Company manages it suppliers effectively, it looks to reduce reliance on critical suppliers and mitigate risk. For operational suppliers the Company seeks to consolidate spend, reduce transactions and consumption, and aims to have competing suppliers to maximise efficiency.

The Company operates in regulated markets and looks to maintain positive and open relationships with the relevant regulators.

Directors' report *(continued)*

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.

Other information

An indication of likely future developments in the business and particulars of significant events which have occurred since the end of the financial period have been included in the Strategic report.

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

Nauman Ahmad
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

27 July 2020

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 Financial Reporting Standard 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;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

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

Opinion

We have audited the financial statements of Sembcorp Utilities (UK) Limited ("the company") for the year ended 31 December 2019 which comprise the Profit and Loss Account, the Statement of Other Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity and related notes, including the accounting policies in note 1.

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2019 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the company in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Going concern

The directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the company or to cease its operations, and as they have concluded that the company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over its ability to continue as a going concern for at least a year from the date of approval of the financial statements.

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the directors' conclusions, we considered the inherent risks to the company's business model and analysed how those risks might affect the company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the company will continue in operation.

Strategic report and directors' report

The directors are responsible for the strategic report and the directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the strategic report and the directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and

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

- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required 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.

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 8, the directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

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

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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.

Andrew Cawthray (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH

27 July 2020

Profit and Loss Account
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Turnover	3	**194,971**	217,082
Cost of sales		**(171,278)**	(193,797)
Gross profit		**23,693**	23,285
Administrative expenses		**(10,084)**	(5,388)
Other operating income – including an exceptional gain of £11,553,000 *(2018: £nil)*	4	**13,335**	1,759
Operating profit		**26,944**	19,656
Other interest receivable and similar income	8	**229**	127
Other finance income	9	**13**	52
Interest payable and similar expenses	10	**(684)**	(721)
Profit before taxation	4-7	**26,502**	19,114
Tax on profit	11	**(5,190)**	(3,500)
Profit for the financial year		**21,312**	15,614

Statement of Other Comprehensive Income
for the year ended 31 December 2019

	Note	2019 £000	2018 £000
Profit for the financial year		**21,312**	15,614
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit liability/asset	27	**4,382**	(2,545)
Income tax on items that will not be reclassified to profit and loss	11	**(745)**	440
Other comprehensive income for the year, net of income tax		**3,637**	(2,105)
Total comprehensive income for the year		**24,949**	13,509

Balance Sheet
at 31 December 2019

	Note	2019		2018	
		£000	£000	£000	£000
Fixed assets					
Intangible assets	*13*		-		9,251
Tangible assets	*14*		**73,895**		78,435
Investment property	*15*		**4,026**		4,026
Investments in subsidiary	*16*		-		-
			77,921		91,712
Current assets					
Stocks	*17*	**4,255**		4,046	
Debtors	*18*	**24,746**		25,293	
Contract asset	*19*	**10,622**		5,119	
Cash at bank and in hand		**35,296**		19,826	
Cash held on deposit		-		28,144	
		74,919		82,428	
Creditors: amounts falling due within one year	*20*	**(38,657)**		(39,568)	
Net current assets			**36,262**		42,860
Total assets less current liabilities			**114,183**		134,572
Creditors: amounts falling due after more than one year	*21*		**(30,911)**		(31,354)
Provisions for liabilities	*22*		**(8,048)**		(8,477)
Net assets excluding pension assets/liabilities			**75,224**		94,741
Pension assets/(liabilities)	*27*		**5,365**		(30)
Net assets including pension assets/liabilities			**80,589**		94,711
Capital and reserves					
Called up share capital	*23*		**31,900**		30,967
Share-based payments reserve			**(1,204)**		(1,200)
Profit and loss account			**49,893**		64,944
Shareholders' funds			**80,589**		94,711

These financial statements were approved by the board of directors on 27 July 2020 and were signed on its behalf by:

Nauman Ahmad
Director

Company registered number: 4636301

Statement of Changes in Equity

	Share capital £000	Share-based payments reserve £000	Profit and loss account £000	Total £000
At 1 January 2018	30,967	(1,230)	51,435	81,172
Profit for the year	-	-	15,614	15,614
Other comprehensive income				
Remeasurement of defined benefit asset	-	-	(2,545)	(2,545)
Deferred tax arising on gain in the pension scheme	-	-	440	440
Total comprehensive income for the year	-	-	13,509	13,509
Transactions with owners, recorded directly in equity				
Equity settled share based payment transactions	-	30	-	30
At 31 December 2018	30,967	(1,200)	64,944	94,711
At 1 January 2019	30,967	(1,200)	64,944	94,711
Profit for the year	-	-	21,312	21,312
Other comprehensive income				
Remeasurement of defined benefit liability	-	-	4,382	4,382
Deferred tax arising on gain on the pension scheme	-	-	(745)	(745)
Total comprehensive income for the year	-	-	24,949	24,949
Transactions with owners, recorded directly in equity				
Re-designation of preference shares to ordinary shares	933	-	-	933
Dividend	-	-	(40,000)	(40,000)
Equity settled share based payment transactions	-	(4)	-	(4)
	933	(4)	(40,000)	(39,071)
At 31 December 2019	**31,900**	**(1,204)**	**49,893**	**80,589**

Notes
(forming part of the financial statements)

1 Accounting policies

Sembcorp Utilities (UK) Limited ("the Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 4636301 and the registered office is Sembcorp UK Headquarters, Wilton International, Middlesbrough, Cleveland, TS90 8WS.

The Company is exempt by virtue of s400 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 are presented in pound sterling, which is the Company's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework ("FRS 101").*

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 IFRSs"), 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.

As at 31 December 2019, the Company's intermediate parent undertaking, Sembcorp Energy UK Limited, included the Company in its consolidated financial statements. The consolidated financial statements of Sembcorp Energy UK Limited are prepared in accordance with International Financial Reporting Standards and are available to the public and may be obtained from Sembcorp UK Headquarters, Wilton International, Middlesbrough, Cleveland TS90 8WS.

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

- Cash Flow Statement and related notes;
- Certain disclosures regarding revenue;
- Certain disclosures regarding leases;
- Comparative period reconciliations for share capital, tangible fixed assets, intangible assets and investment properties;
- Disclosures in respect of transactions with wholly owned subsidiaries;
- Disclosures in respect of capital management;
- The effects of new but not yet effective IFRSs; and
- Disclosures in respect of the compensation of Key Management Personnel.

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

- IFRS 2 Share based payments in respect of group settled share based payments; and
- Certain disclosures required by IFRS 13 Fair value measurement on the disclosures required by *IFRS 7 Financial instrument disclosures.*

Except for the changes noted below, the accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

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)*

Change in accounting policies

The Company initially applied IFRS 16 Leases from 1 January 2019.

The Company applied IFRS 16 using the modified retrospective approach, under which any cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated – i.e. it is presented, as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS 16 have not generally been applied to comparative information.

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained below.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Company applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

The adoption of IFRS16, together with a number of other new standards also effective from 1 January 2019, did not have a material effect on the Company's financial statements.

Measurement convention

The financial statements are prepared on the historical cost basis except that certain financial assets and financial liabilities (including derivatives) are measured at fair value through the profit or loss.

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.

As at 31 December 2019 the Company had no external borrowings and cash at bank and held on deposit was £35,296,000 and as at 30 June 2020 the Company had no external borrowings and cash at bank and held on deposit was £51,456,000. The Company's borrowings includes intragroup unsecured loan notes of £29,500,000 with no fixed repayment date. In the context of the current Covid-19 outbreak, the Board of Sembcorp Utilities (UK) Limited undertook an assessment of the ability of the Company to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021. In doing so, the Board considered events throughout the period of their assessment, including the availability and maturity profile of the Company's financing facilities, and concluded there were no specific events that bring into question the appropriateness of the going concern conclusion reached. To date the impact of the Covid-19 pandemic on the Company's day-to-day operations or performance has been modest, with all of the Company's core assets and infrastructure remaining in operation.

Management's assessment took account of reasonably possible changes in trading performance, including severe but plausible downside sensitivities. Under all scenarios considered, the Company is expected to have a sufficient level of financial resources to meet its liabilities as they fall due.

The directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due over the period of their assessment from the date of approval of the financial statements. Accordingly, they continue to prepare the financial statements on a going concern basis.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

Financial instruments

(i) Recognition and initial measurement

Trade receivables and debt securities issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at fair value through profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

(ii) Classification and subsequent measurement

Financial assets

(a) Classification

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.

A financial asset is measured at amortised cost if it meets both of the following conditions:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at FVOCI if it meets both of the following conditions:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets.

Investments in subsidiaries are carried at cost less impairment.

Notes *(continued)*

1 Accounting policies *(continued)*

***Financial instruments** (continued)*

(b) Subsequent measurement and gains and losses

Financial assets at FVTPL - these assets (other than derivatives designated as hedging instruments) are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.

Financial assets at amortised cost - These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognised in profit or loss.

Debt investments at FVOCI - these assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

Equity investments at FVOCI - these assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

Financial liabilities and equity

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.

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

Intra-group financial instruments

Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

(iii) 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

(iv) Impairment

The Company recognises loss allowances for expected credit losses (ECLs) on financial assets measured at amortised cost, debt investments measured at FVOCI and contract assets (as defined in IFRS 15).

The Company measures loss allowances at an amount equal to lifetime ECL, except for other debt securities and bank balances for which credit risk (i.e. the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition, which are measured as 12-month ECL.

Loss allowances for trade receivables and contract assets are always measured at an amount equal to lifetime ECL.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Company considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the company's historical experience and informed credit assessment and including forward-looking information.

The Company considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is more than 90 days past due.

Lifetime ECLs are the ECLs that result from all possible default events over the expected life of a financial instrument.

12-month ECLs are the portion of ECLs that result from default events that are possible within the 12 months after the reporting date (or a shorter period if the expected life of the instrument is less than 12 months).

The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the Company assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Write-offs

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

***Tangible fixed assets and depreciation** (continued)*

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.

Intangible assets, goodwill and negative goodwill

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.

Carbon trading - Carbon allowances purchased by the Company are stated at cost and are accounted for as intangible assets. Quantities of allowances received are also accounted for as intangible assets with a related deferred income balance in the balance sheet at their estimated recoverable value. The liability for carbon allowances to be surrendered with regards emissions in the year is accounted for within creditors: amounts due within one year.

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

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.

Renewable Obligations Certificates (ROCs)

The Company is able to claim ROCs from the Office of Gas and Electricity Markets ("OFGEM") as a result of burning renewable fuels. ROCs 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. ROCs are recorded at market value and included within Contract assets 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 is credited to turnover once the once the conditions attaching to their sale have been satisfied.

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. Land is not depreciated.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Stocks

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

Impairment of non-financial assets excluding inventories, investment properties and deferred tax assets

The carrying amounts of the Company's non-financial assets, other than inventories, investment properties 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.

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").

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.

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 asset's 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.

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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

***Employee benefits** (continued)*

Defined benefit plans (continued)

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

Where the Company's parent grants rights to its equity instruments to the Company's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Company account for these share-based payments as equity-settled. Amounts recharged by the parent are recognised as a recharge liability with a corresponding entry to equity. The entries to equity are recognised in the share based payment reserve, which represents a component of total profit and loss reserves.

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.

Turnover

Turnover is measured at the fair value of the consideration received or receivable, and represents amounts receivable for Energy or Onsite Logistics services provided in the normal course of business, net of VAT and other sales-related taxes. The company recognises turnover when performance obligations have been satisfied and for the Company this is when Energy or Onsite Logistics services have transferred to the customer and the customer has control of these.

Turnover relating to Energy includes the supply of heat and power from both renewable and fossil fuel sources; the provision for analytical services; and the supply of water and industrial gases. Onsite logistics turnover includes asset management services through the provision of integrated stores, warehousing, infrastructure and environmental services.

Energy and Onsite Logistics sales contracts each have one performance obligation, being the provision of the utility product or service respectively. The transaction price is based on contractual amounts across the period over which the product or service is supplied. Therefore all revenue streams are recognised over time.

Notes *(continued)*

1 Accounting policies *(continued)*

Expenses and Income

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.

Dividend income is recognised in the profit and loss account on the date the entity's right to receive payments is established.

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 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.

Leases (policy applicable from 1 January 2019)

The Company has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16.

As a lessee

At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Company accounts for each lease component separately from the non-lease components. However, for the leases of property, the Company has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component. The Company allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

Notes *(continued)*

1 Accounting policies *(continued)*

***Leases (policy applicable from 1 January 2019)** (continued)*

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise,
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment' and lease liabilities in 'loans and borrowings' in the statement of financial position.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

At inception or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract applying IFRS 15.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Company makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Company considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

Notes *(continued)*

1 Accounting policies *(continued)*

***Leases (policy applicable from 1 January 2019)** (continued)*

The Company applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see the financial instruments note). The Company further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

The accounting policies applicable to the Company as a lessor in the comparative period under IAS 17 were not different from IFRS 16.

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.

- *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 27.

3 Turnover

All turnover arises from the principal activities of the Company, which are carried out in the United Kingdom.

Analysis of turnover by category:

	2019	2018
	£000	£000
Energy and Utilities	**187,934**	209,415
Onsite Logistics	**7,037**	7,667
	194,971	217,082

Timing of revenue recognition:

	2019	2018
	£000	£000
Products and services transferred over time	**194,971**	217,082

Notes *(continued)*

4 Other operating income

	2019 £000	2018 £000
Gain on disposal of freehold land	**11,553**	-
Rental income	**1,782**	1,759
	13,335	1,759

The gain arsing on the sale of the Company's interest in its freehold land during the year, under a 999 year long leasehold, has been presented as an exceptional gain in the profit and loss on the basis of its quantum, and it's non-recurring nature.

5 Expenses and auditor's remuneration

	2019 £000	2018 £000
Depreciation of tangible fixed assets	**12,422**	12,533
Amounts written off tangible fixed assets	**1,469**	-
Reversal of impairment loss on inventories	**(118)**	(1,585)
Management fees charged by parent undertaking	**674**	784

Auditor's remuneration:

	2019 £000	2018 £000
Audit of these financial statements	**105**	115

Amounts receivable by the Company's auditor and its associates in respect of services to the Company and its associates, other than the audit of the Company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis in the consolidated financial statements of the Company's parent, Sembcorp Energy UK Limited.

6 Directors remuneration

	2019 £000	2018 £000
Directors' emoluments	**523**	315
Amounts receivable under long term incentive schemes	**15**	13
Company contribution to money purchase pension scheme	**33**	15

Directors' emoluments include £150,000 *(2018: £140,000)* paid by a related group undertaking and recharged to the Company.

Notes *(continued)*

6 Directors remuneration *(continued)*

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £216,000 *(2018: £175,000)*, and Company pension contributions of £10,000 *(2018: £15,000)* were made to a money purchase scheme on his behalf.

	Number of directors	
	2019	2018
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**3**	1
The number of directors in respect of whose qualifying services shares were received or receivable under long term incentive schemes was	**1**	1

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	
	2019	2018
Operating	**178**	147
Administration	**44**	45
	222	192

The aggregate payroll costs of these persons were as follows:

	2019	2018
	£000	£000
Wages and salaries	**10,996**	8,541
Share based payments (note 28)	**64**	64
Social security costs	**1,230**	945
Expenses related to defined benefit plans (note 27)	**-**	100
Contributions to defined contribution plans (note 27)	**1,489**	1,235
	13,779	10,885

8 Other interest receivable and similar income

	2019	2018
	£000	£000
On amounts receivable from group undertakings	**136**	81
Bank interest receivable	**93**	46
	229	127

Notes *(continued)*

9 Other finance income

	2019 £000	2018 £000
Expected return on pension scheme assets	**3,263**	3,290
Interest on pension scheme liabilities	**(3,250)**	(3,238)
	13	52

10 Interest payable and similar expenses

	2019 £000	2018 £000
On amounts payable to group undertakings	**634**	572
Finance costs on shares classified as liabilities	**50**	149
	684	721

11 Taxation

Recognised in the profit and loss account

	2019 £000	2019 £000	2018 £000	2018 £000
UK corporation tax				
Current tax on income for the period	**6,363**		4,765	
Adjustments in respect of prior periods	**-**		(45)	
Total current tax		**6,363**		4,720
Deferred tax (see note 22)				
Reversal of timing differences	**(1,321)**		(1,084)	
Impact of reduction in tax rate	**139**		(133)	
Adjustment in respect of previous years	**9**		(3)	
Total deferred tax		**(1,173)**		(1,220)
Total tax expense recognised in profit or loss		**5,190**		3,500

Recognised in other comprehensive income

	2019 £000	2018 £000
Deferred tax (see note 22)		
Remeasurement of defined benefit liability/asset	**833**	(484)
Impact of reduction in tax rate	**(88)**	44
Total tax expense/(credit) recognised in other comprehensive income	**745**	(440)

Notes *(continued)*

11 Taxation *(continued)*

Reconciliation of effective tax rate

	2019 £000	2018 £000
Profit for the year	**21,312**	15,614
Total tax expense	**5,190**	3,500
Profit excluding taxation	**26,502**	19,114
Tax using UK corporation tax rate of 19% *(2018: 19%)*	**5,035**	3,632
Finance charge on shares classified as liabilities	**10**	28
Expenses not deductible for tax purposes and other permanent differences	**-**	21
Income not taxable	**(3)**	-
Reduction in tax rate on deferred tax balances	**139**	(133)
Over provided in prior years	**9**	(48)
Total tax expense recognised in profit or loss	**5,190**	3,500

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 19% to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016, and the deferred tax liability as at 31 December 2019 has been calculated based on this rate. In the 11 March 2020 Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020. This will have a consequential effect on the Company's future tax charge. If this rate change had been substantively enacted at the current balance sheet date the deferred tax liability would have increased by £947,000.

12 Dividends

The aggregate amount of dividends comprises:

	2019 £000	2018 £000
Final dividends paid in respect of prior year but not recognised as liabilities in year	**-**	-
Interim dividends paid in respect of the current year	**40,000**	-
Aggregate amount of dividends paid in the financial year	**40,000**	-

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil *(2018: £nil)*.

Notes *(continued)*

13 Intangible fixed assets

	Carbon trading certificates £000
Cost	
At beginning of year	9,251
Disposal	(9,251)
At end of year	-
Amortisation	
At beginning and end of year	-
Net book value	
At 31 December 2019	-
At 31 December 2018	9,251

14 Tangible fixed assets

	Land and buildings £000	Plant and equipment £000	Vehicles £000	Assets under construction £000	Total £000
Cost or valuation					
At beginning of year	15,208	309,218	428	2,978	327,832
Additions	-	8,587	-	1,051	9,638
Disposals	(287)	-	-	-	(287)
Transfers between items	-	2,458	-	(2,458)	-
Write-off	-	(3,496)	-		(3,496)
At end of year	14,921	316,767	428	1,571	333,687
Depreciation					
At beginning of year	4,424	244,545	428	-	249,397
Charge for year	44	12,378	-	-	12,422
Write-off		(2,027)	-	-	(2,027)
At end of year	4,468	254,896	428	-	259,792
Net book value					
At 31 December 2019	**10,453**	**61,871**	**-**	**1,571**	**73,895**
At 31 December 2018	10,784	64,673	-	2,978	78,435

Included within land and buildings is leasehold land of £505,000 *(2018: £521,000)*. The remaining land and buildings are freehold. Plant and equipment as at 31 December 2019 include capitalised interest of £1.48 million *(2018: £1.48 million)*.

The Directors have reviewed the carrying amounts of tangible fixed assets, for indicators of impairment at 31 December 2019 and do not believe any exist.

Assets under construction relate to on-going capital projects which were not complete, and therefore these assets were not available for use, at the year end.

Notes *(continued)*

15 Investment property

	2019 £000	2018 £000
Cost at beginning and end of the year	**4,026**	4,026
Aggregate depreciation thereon	**-**	-
Net book value at beginning and end of the year	**4,026**	4,026
On open market basis:		
Net book value	**12,803**	12,803

Investment property relates to land. A full valuation was performed at 14 November 2017 by Dodds Brown LLP (Chartered Surveyors and Property Consultants), which has been used by the directors to update the open market value at 31 December 2019. 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. The Directors have disclosed a cautious estimate of the open market value taking into account their considerations of the commercial use of the property.

16 Fixed asset investments

	Investment in subsidiary £
Cost and net book value	
At beginning and end of year	**2**

The Company has one 100% owned subsidiary company, Wilton Energy Limited incorporated in the UK, whose principal activity is selling electricity. The registered office address is PO Box 1985, Wilton International, Middlesbrough, TS90 8WS.

17 Stocks

	2019 £000	2018 £000
Raw materials	**1,795**	2,463
Engineering spares	**2,460**	1,583
	4,255	4,046

Included within stocks is £nil *(2018: £nil)* expected to be recovered in more than 12 months.

Raw materials and consumables recognised as cost of sales in the year amounted to £12,900,000 *(2018: £13,792,000)*.

Stocks are stated after an obsolescence provision of £3,308,000 *(2018: £3,426,000)*.

Notes *(continued)*

18 Debtors

	2019 £000	2018 £000
Trade debtors	**18,800**	23,060
Unbilled trade receivables	**2,306**	-
Amounts due from immediate holding company	**255**	89
Amounts owed by subsidiary undertaking	**-**	936
Prepayments and accrued income	**3,385**	1,208
	24,746	25,293

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

19 Contract asset

	2019 £000	2018 £000
Renewable obligation certificates	**10,622**	5,119

The contract assets primarily relate to the Company's rights to consideration for work completed but not billed at the reporting date. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer.

20 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Shares classified as liabilities (note 23)	**-**	130
Trade creditors	**7,208**	11,164
Amounts owed to subsidiary undertaking	**66**	-
Amounts owed to group undertakings	**1,312**	-
Corporation tax payable	**-**	2,645
Other taxation and social security	**268**	229
Accruals and deferred income	**29,803**	25,400
	38,657	39,568

Amounts owed to group undertakings include group relief of £1,312,000 *(2018: £nil)*.

Notes *(continued)*

21 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Shares classified as liabilities (note 23)	-	803
Loan from related corporation	29,500	29,500
Accruals and deferred income	1,411	1,051
	30,911	31,354

The loan from related corporation of £29.5 million *(2018: £29.5 million)* bears an effective interest rate of 1.9% *(2018: 1.7%)* per annum and is 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 £18.783 million *(2018: £4.453 million)* as required under the terms of its power trading and fuel purchasing arrangements.

22 Provisions for liabilities

	Carbon provision £000	Deferred taxation £000	Total £000
At beginning of year	1	8,476	8,477
Charge/(credit) to the profit and loss for the year	(1)	(1,173)	(1,174)
Debit to other comprehensive income	-	745	745
At end of year	**-**	**8,048**	**8,048**

Deferred taxation assets and liabilities

Recognised tax assets and liabilities are attributable to the following:

	Assets		Liabilities		Net	
	2019 £000	2018 £000	2019 £000	2018 £000	2019 £000	2018 £000
Tangible fixed assets	-	-	7,235	8,582	7,235	8,582
Provisions	(99)	(101)	-	-	(99)	(101)
Employee benefits	-	(5)	912	-	912	(5)
Net tax (assets)/liabilities	(99)	(106)	8,147	8,582	8,048	8,476

Notes *(continued)*

22 Provisions for liabilities *(continued)*

Movement in deferred tax during the year:

	At beginning of year £000	Included in profit and loss account £000	Included in other comprehensive income £000	**At end of year £000**
Tangible fixed assets	8,582	(1,347)	-	**7,235**
Provisions	(101)	2	-	**(99)**
Employee benefits	(5)	172	745	**912**
	8,476	(1,173)	745	**8,048**

Movement in deferred tax during the prior year:

	At beginning of year £000	Included in profit and loss account £000	Included in other comprehensive income £000	At end of year £000
Tangible fixed assets	9,949	(1,367)	-	8,582
Provisions	(87)	(14)	-	(101)
Employee benefits	274	161	(440)	(5)
	10,136	(1,220)	(440)	8,476

23 Called up share capital

	2019 £000	2018 £000
Allotted, called up and fully paid		
31,900,000 *(2018: 17,000,000)* Ordinary shares of £1 each	**31,900**	17,000
Nil *(2018: 14,900,000)* 1% cumulative redeemable preference shares of £1 each	**-**	14,900
	31,900	31,900
Shares classified as liabilities (note 20 and 21)	**-**	933
Shares classified in shareholders' funds	**31,900**	30,967
	31,900	31,900

On 30 April 2019, 14,900,000 1% cumulative redeemable preference shares of £1 each were re-designated as 14,900,000 ordinary shares of £1 each.

The preference shares were previously valued net of the fair value of the associated dividend stream of £0.933 million which was reclassified within creditors.

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

Notes *(continued)*

23 Called up share capital *(continued)*

On a distribution of assets of the Company among its members on a winding up, each preference shareholder was 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 carried 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 was entitled to one vote on a show of hands or one vote per share on a poll.

24 Leases

Leases as a lessee

Expenses relating to short-term leases and leases of low value assets amounted to £246,000 and were recognised in profit or loss. Operating lease costs, under IAS 17, in 2018 amounted to £206,000 and were recognised in profit or loss.

Leases as a lessor

The Company leases out certain of its freehold land and buildings at its site in Teesside. The Company has classified these leases as operating leases, because they do not transfer substantially all of the risks and rewards incidental to the ownership of the assets.

Rental income recognised by the Company during 2019 was £1,782,000 *(2018: £1,759,000)*.

The following table sets out a maturity analysis of lease payments, showing the undiscounted lease payments to be received after the reporting date:

	2019	2018
	£000	£000
Within one year	**746**	1,337
Between one and five years	**1,925**	4,728
After five years	**2,261**	905
	4,932	6,970

25 Commitments

Capital commitments to purchase property, plant and equipment at the end of the year, for which no provision has been made, total £5,445,000 *(2018: £4,196,000)*.

26 Contingencies

The Company has letters of credit and guarantees in place in relation to various performance obligations under certain contracts. The total value of these at 31 December 2019 amounted to £18,783,000 *(2018: £4,453,000)*.

Notes *(continued)*

27 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 £1,489,000 *(2018: £1,235,000)*.

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

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 2019. The scheme's assets are stated at their market values at 31 December 2019.

Employer contributions in relation to deficit contributions over the accounting period, amounted to £1,000,000 *(2018: £1,000,000)*.

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 2017. 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.

	2019	2018
	£000	£000
Defined benefit obligation	**(126,022)**	(121,306)
Plan assets	**131,387**	121,276
Net pension asset/(liability)	**5,365**	(30)

The Company has recognised the pension surplus on its balance sheet as it can recover the surplus either through reduced contributions in the future or through refunds from the Scheme.

Notes *(continued)*

27 Pension scheme *(continued)*

Movements in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit (liability)/asset	
	2019	2018	**2019**	2018	**2019**	2018
	£000	£000	**£000**	£000	**£000**	£000
Balance at 1 January	**(121,306)**	(132,634)	**121,276**	134,197	**(30)**	1,563
Included in profit or loss						
Current service cost	**-**	-	**-**	-	**-**	-
Past service charge	**-**	(100)	**-**	-	**-**	(100)
Interest (cost)/income	**(3,250)**	(3,238)	**3,263**	3,290	**13**	52
	(3,250)	(3,338)	**3,263**	3,290	**13**	(48)
Included in OCI						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from						
- Changes in demographic assumptions	**2,465**	5,725	**-**	-	**2,465**	5,725
- Change in financial assumptions	**(8,151)**	(1,113)	**-**	-	**(8,151)**	(1,113)
- Experience adjustment	**76**	(242)	**-**	-	**76**	(242)
Return on plan assets excluding interest income	**-**	-	**9,992**	(6,915)	**9,992**	(6,915)
	(5,610)	4,370	**9,992**	(6,915)	**4,382**	(2,545)
Other						
Contributions paid by the employer	**-**	-	**1,000**	1,000	**1,000**	1,000
Benefits paid	**4,144**	10,296	**(4,144)**	(10,296)	**-**	-
	4,144	10,296	**(3,144)**	(9,296)	**1,000**	1,000
Balance at 31 December	**(126,022)**	(121,306)	**131,387**	121,276	**5,365**	(30)

Cumulative actuarial gains/(losses) reported in the statement of comprehensive income gains and losses since the 2003 year end are £3,637,000 loss *(2018: £8,019,000 loss)*.

Notes *(continued)*

27 Pension scheme *(continued)*

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

	2019 Fair value £000	2018 Fair value £000
Hedge funds	**12,030**	12,888
Equities	**24,357**	19,261
Government bonds	**7,870**	7,233
Corporate bonds	**35,498**	31,785
Gilts	**50,580**	49,365
Other	**1,052**	744
	131,387	121,276
Expected return on plan assets	**3,263**	3,290
Remeasurement (loss)/gain on scheme assets	**9,992**	(6,915)
Actual return on plan assets	**13,255**	(3,625)

At 31 December 2019, none of the fair value of scheme assets related to self-investment.

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

	2019 %	2018 %
Discount rate	**2.0**	2.8
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	**2.55**	3.1
- benefits accrued post May 2006	**2.2**	2.2
RPI Inflation	**2.6**	3.2
CPI Inflation	**2.1**	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 20.7 years if they are male and for a further 23.4 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 22.1 years after retirement if they are male and for a further 24.9 years after retirement if they are female.

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.

	2019 £000	2018 £000
Discount rate +1% p.a.	**(19,388)**	(19,064)
1% increase in the Inflation	**17,853**	15,300

Notes *(continued)*

27 Pension scheme *(continued)*

Sensitivity analysis (continued)

In valuing the liabilities of the pension fund at 31 December 2019, mortality assumptions have been made as indicated above. 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 2019 would have increased by £5,241,000 *(2018: £3,555,000)* 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 2017 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 £1,000,000 in 2019 *(2018: £1,000,000)*, and expects to contribute £1,000,000, in deficit contributions, in the next financial year.

28 Employee share schemes

Share based payments

Share options in the penultimate parent company, Sembcorp Industries Ltd ("SCI"), are granted to certain employees of the Company. These share options are awarded directly by the penultimate 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 SCI PSP 2010 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 strengthen SCI's competitiveness in attracting and retaining talented key senior management and senior executives.

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

The 2010 Share Plans are priced in Singapore dollars (S$).

Total expense recognised for share based payments during the year ended 31 December 2019 is £64,000 *(2018: £64,000)* and £68,000 *(2018: £34,000)* was recharged to the Company in respect of these payments.

Notes *(continued)*

28 Employee share schemes *(continued)*

Other information regarding the 2010 Share Plans is as follows:

(a) Performance Share Plan

Under the Performance Share Plan ("SCI PSP 2010"), the awards granted are conditional on performance targets and are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. Depending on the extent of the achievement of performance conditions during a three-year period, 50% of the final performance shares will vest at the end of three-year performance period, and the remaining 50% will vest in the subsequent year.

The performance levels were calibrated based on Total Shareholder Return and Transformation Outcomes. The transformation criteria comprise goals on Return on Equity, Total Renewable Capacity and Implementation of Digital Initiatives. A minimum threshold performance must be realised to trigger an achievement factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered range from 0% to 150% of the conditional performance shares awarded.

Senior management participants are required to hold a minimum percentage of the shares released to them under the SCI PSP 2010 to maintain a 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, but in the event of a shortfall, they have a two-calendar year period to meet the minimum percentage requirement.

Performance 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
2018	**63,000**	63,000
2019	**73,000**	-
	136,000	63,000

73,000 *(2018: 63,000)* performance shares were awarded during the year.

The total number of performance shares outstanding, including awards achieved but not released, as at end 2019, was 136,000 *(2018: 63,000)*.

The total expense recognised during the year in relation to this scheme was £27,000 *(2018: £23,000)*.

(b) Restricted Share Plan

Under the Restricted Share Plan (SCI RSP 2010), the awards granted are conditional on performance targets and 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 2017. With effect from FY2019, shares are granted to eligible employees based on financial performance and corporate objectives achieved in the preceding year. The performance criteria for FY 2019 awards granted are calibrated based on EBITDA and ROE, and non-financial performance targets, comprising transformation milestones and adherence to environment, health and safety standards achieved by the SCI Group for FY2018.

Senior management participants are required to hold a minimum percentage of the shares released to them under the Restricted Share Plan to maintain a 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, but in the event of a shortfall, they have a two-calendar year period to meet the minimum percentage requirement.

Notes *(continued)*

28 Employee share schemes *(continued)*

(b) Restricted Share Plan *(continued)*

For managerial participants, a quarter of the awards granted vest immediately depending on the fulfilment of the above criteria. The remaining three-quarters of the awards vest over the following three years in equal tranches, subject to individual performance and fulfilment of service conditions at vesting.

Restricted 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
2016	**800**	10,258
2017	**9,686**	20,846
2018	**16,114**	39,000
2019	**28,685**	-
	55,285	70,104

With the achievement of the performance targets for the performance period 2015 to 2018, a total of 38,249 *(2018: 29,479)* restricted shares were released during 2019 and 14,820 *(2018: 674)* restricted shares lapsed due to under-achievement of the performance targets. 38,250 *(2018: nil)* restricted shares were awarded during 2019.

The total number of restricted shares outstanding, including awards achieved but not released, as at end 2019, was 55,285 *(2018: 70,104)*.

The total expense recognised during the year in relation to this scheme was £37,000 *(2018: £41,000)*.

29 Derivative financial instruments

Commodity contracts

In accordance with IFRS the Company is entitled to an exemption not to fair value financial instruments when the Company's intention is to physically deliver these financial instruments. The fair values of these instruments at the year-end were as follows:

	2019		2018	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Commodity contracts	**4,366**	**(5,510)**	1,494	(3,522)

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.

Notes *(continued)*

30 Subsequent events

The recent outbreak of Covid-19 is clearly concerning and the Company, as part of the Sembcorp Energy UK group, is monitoring developments very closely. The wellbeing of its employees, customers, suppliers and the communities the Group serves remains its number one priority. The Group has a comprehensive Business Continuity Plan, and a Pandemic Response Plan that is supporting it through the Covid-19 pandemic.

Demand and forecasting is naturally being reviewed to understand the 2020 business expectations. To date the impact of the Covid-19 pandemic on day-to-day operations or performance has been modest, with the Company's core assets and infrastructure remaining in operation. However, this is a fast changing environment and, like every other business, the Group is planning for a range of scenarios and is in regular contact with its stakeholders and will continue to work closely with all key parties during the difficult weeks and months ahead.

31 Ultimate parent company and parent company of larger group

As at 31 December 2019, the Company was a wholly owned subsidiary of Sembcorp Energy UK Limited, which is incorporated, domiciled and registered in England in the UK. Sembcorp Energy UK Limited is a subsidiary undertaking of Sembcorp Utilities Pte Ltd, which in turn is a subsidiary of Sembcorp Industries Ltd. Both Sembcorp Utilities Pte Ltd and Sembcorp Industries Ltd are registered and incorporated in the Republic of Singapore and have their registered office at 30 Hill Street, #05-04, Singapore 179360.

The largest group in which the results of the Company are consolidated is that headed by Sembcorp Industries Ltd. The smallest group in which they are consolidated is that headed by Sembcorp Energy UK Limited. The consolidated financial statements of Sembcorp Industries Limited are available to the public and may be obtained from 30 Hill Street, #05-04, Singapore 179360. The consolidated financial statements of Sembcorp Energy UK Limited are also available to the public and may be obtained from the Companies House.

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