Sembcorp Utilities (UK) Limited

Annual Report and Financial Statements

Registered number 4636301

31 December 2017

Contents

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

Business model

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

Sembcorp's business model is executed through three integrated business streams. At the core is a growing renewable energy portfolio. This is aligned with national energy policy and allows us to leverage our position and experience to maximise green benefits through the diversification of renewable fuels and feedstock, long term supply agreements and maximising operational outputs. Our traditional energy and utility supply is being constantly realigned to reflect ongoing UK power market conditions and also a declining customer heat demand. The aim is to retain generation and distribution assets of the right size and flexibility to meet the operational demands of the industrial customer base, 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 Sembcorp and our customers including Site Management, effluent services and roads/estate management. In this business Sembcorp continues to support a number of development projects and companies with the aim of increased uptake of development land at Wilton to a wider industrial base.

Business review and results

Performance

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

	2017	2016
	£000	£000
Turnover	**175,436**	149,944
Gross profit (after exceptional credit totalling £Nil (*2016: credit £3,590,000*))	**24,665**	21,975
Operating profit	**16,845**	18,286
Profit for the financial year	**13,618**	14,219
Operating profit margin	**9.60%**	12.20%

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

During the prior year the Company recognised an impairment reversal on tangible fixed assets of £3,590,000.

In October 2017, Sembcorp Utilities UK was fined £1.35 million and ordered to pay prosecution costs after earlier pleading guilty at Teesside Crown Court to two offences under the Health and Safety at Work Act. The fine related to an incident which took place during the hydraulic pressure testing of the biomass boiler at Wilton in December 2013 as part of scheduled maintenance and repair work. The inlet valve of a pressure test rig failed causing the hose and fitting to come away, striking an inspection engineer from a contractor firm who suffered severe injuries to his leg, resulting in subsequent amputation.

Strategic Report *(continued)*

Business review and results *(continued)*

Following the incident, the company performed a detailed in-depth review of safe working practices. The relevant management procedures have been reinforced to extensively cover key aspects of pressure testing including appropriate training, review of approved suppliers and assessments, and management of contractors. Also, other measures include a safe operating committee, established across the Sembcorp Group, whose activities include reviews of 'out of the ordinary' and hazardous tasks prior to being performed.

The Company recorded a profit for the year of £13.6 million and paid a dividend of £12.4 million. The balance sheet as at 31 December 2017 demonstrates that the financial position of the Company remains strong with net assets of £81.2 million *(2016: £78.2 million).*

Key performance indicators

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

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

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 recent energy from waste facility at Wilton, working in partnership with waste management company SITA. 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; and
- legislative risks. The Company has to comply with a wide range of legislation and regulatory requirements including environmental and health and safety laws. The Company monitors its compliance with its regulatory and environmental obligations on an ongoing basis.

Future developments

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

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.

Strategic Report *(continued)*

Business review and results *(continued)*

Sembcorp's business development activities are beginning to see results with two potential developers purchasing land at Wilton International in 2017 leading to the prospect of new customers for Sembcorp's competitively priced utilities and services.

Signed on behalf of the board

SHands

S Hands
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

27/3/ 2018

Directors' Report

The directors present their directors' report and financial statements for the year ended 31 December 2017.

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

Treasury policies

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

Interest rate risk

The Company is currently financed through an inter-company loan, which attracts interest at variable rates (2016: variable rates).

The Company has used interest rate swaps in the past, however current loans are all variable in nature (2016: 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 potentially 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 an interim ordinary share capital dividend of £12,351,000 in respect of the year ended 31 December 2017, plus a preference dividend of £149,000.

The directors do not recommend the payment of a final ordinary dividend in respect of the year ended 31 December 2017.

Directors

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

S C Hands
Ng Meng Poh
M K Chin (resigned 1 October 2017)
N G McGregor
N Ahmad (appointed 1 October 2017)

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

Employees

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

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

Political contributions

The Company made no political contributions during the year *(2016: £nil)*.

Disclosure of information to auditor

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

Directors' Report *(continued)*

Auditor

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

By order of the board

SHands

S Hands
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

27/3/2018

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

The directors are responsible for preparing the Strategic Report, Directors' Report and the financial statements in accordance with applicable law and regulations.

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern;
- 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
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110 Quayside
Newcastle upon Tyne
NE1 3DX
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 2017 which comprise the Profit and loss account, Statement of Other Comprehensive Income, Balance Sheet, 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 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; 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

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 twelve months from the date of approval of the financial statements. We have nothing to report in these respects.

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
- 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

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

Matters on which we are required to report by exception (continued)

- 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 7, 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.

M. K. Thompson.

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

28 March 2018

Profit and Loss Account

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Turnover	3	**175,436**	149,944
Cost of sales (including exceptional credit of £Nil *(2016: credit of £3,590,000))*	4	**(150,771)**	(127,969)
Gross profit		**24,665**	21,975
Administrative expenses	4	**(9,475)**	(4,834)
Other operating income	4	**1,655**	1,145
Operating profit		**16,845**	18,286
Other interest receivable and similar income	8	**15**	83
Other finance costs	9	**(26)**	(81)
Interest payable and similar expenses	10	**(683)**	(1,028)
Profit before taxation	4-10	**16,151**	17,260
Tax on profit	11	**(2,533)**	(3,041)
Profit for the financial year		**13,618**	14,219

All of the results above are derived from continuing activities.

Statement of Other Comprehensive Income

for the year ended 31 December 2017

	Note	2017 £000	2016 £000
Profit for the financial year		**13,618**	14,219
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurement of defined benefit liability asset	23	**2,062**	264
Income tax on items that will not be reclassified to profit and loss		**(363)**	(55)
Other comprehensive gain for the year		**1,699**	209
Items that are or may be reclassified subsequently to profit or loss			
Net change in fair value of hedges reclassified to profit or loss		**-**	224
Income tax on items that are or may be reclassified to profit or loss		**-**	(46)
Other comprehensive income for the year, net of income tax		**1,699**	387
Total comprehensive income for the year		**15,317**	14,606

Balance Sheet
at 31 December 2017

	Note	2017 £000	£000	2016 £000	£000
Fixed assets					
Intangible assets	*13*		**2,887**		1,000
Tangible assets	*14*		**87,920**		99,027
Investment properties	*15*		**4,026**		4,026
Investments in subsidiary	*16*		**-**		-
			94,833		104,053
Current assets					
Stocks	*17*	**4,215**		6,036	
Debtors (including £nil *(2016: £nil)* due after more than one year)	*18*	**24,475**		18,525	
Cash at bank and in hand		**17,781**		24,679	
Cash held on deposit		**15,067**		5,052	
		61,538		54,292	
Creditors: amounts falling due within one year	*19*	**(34,939)**		(35,541)	
Net current assets			**26,599**		18,751
Total assets less current liabilities			**121,432**		122,804
Creditors: amounts falling due after more than one year	*20*		**(31,688)**		(31,935)
Provisions for liabilities	*21*		**(10,135)**		(11,227)
Net assets excluding pension liabilities			**79,609**		79,642
Pension assets/ (liabilities)	*24*		**1,563**		(1,473)
Net assets including pension liabilities			**81,172**		78,169
Capital and reserves					
Called up share capital	*22*		**30,967**		30,967
Hedging reserve			**-**		-
Capital contribution reserve			**(1,230)**		(1,267)
Profit and loss account			**51,435**		48,469
Shareholders' funds			**81,172**		78,169

These financial statements were approved by the board of directors on 29 March 2018 and were signed on its behalf by:

SHands

S Hands
Director

Company registered number: 4636301

Statement of Changes in Equity

for the year ended 31 December 2017

	Share capital £000	Hedging reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 January 2016	30,967	(178)	(1,147)	53,747	83,389
Profit for the year	-	-	-	14,219	14,219
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	264	264
Deferred tax arising on gain in the pension scheme	-	-	-	(55)	(55)
Net credit in relation to hedges	-	178	-	-	178
Total comprehensive income for the year	-	178	-	14,428	14,606
Transactions with owners, recorded directly in equity					
Dividends paid	-	-	-	(19,706)	(19,706)
Equity settled share based payment transactions	-	-	(120)	-	(120)
At 31 December 2016	**30,967**	**-**	**(1,267)**	**48,469**	**78,169**
Profit for the year	-	-	-	13,618	13,618
Other comprehensive income					
Remeasurement of defined benefit liability	-	-	-	2,062	2,062
Deferred tax arising on gain on the pension scheme	-	-	-	(363)	(363)
Net credit in relation to hedges	-	-	-	-	-
Total comprehensive income for the year	-	-	-	15,317	15,317
Transactions with owners, recorded directly in equity					
Dividends paid	-	-	-	(12,351)	(12,351)
Equity settled share based payment transactions	-	-	37	-	37
At 31 December 2017	**30,967**	**-**	**(1,230)**	**51,435**	**81,172**

Notes
(forming part of the financial statements)

1 Accounting policies

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

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

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

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

The Company's parent undertaking, Sembcorp Utilities Pte Limited, includes the Company in its consolidated financial statements. The consolidated financial statements of Sembcorp Industries Limited are available to the public and may be obtained as detailed in note 27.

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

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

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

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

The 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.

1.1 Measurement convention

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.2 Going concern

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

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

1.3 Foreign currency

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

1.4 Classification of financial instruments issued by the Company

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

(a) they include no contractual obligations upon the Company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Company; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

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

1.5 Non-derivative financial instruments

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

Trade and other debtors

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.5 Non-derivative financial instruments (continued)

Trade and other creditors

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

Investments in debt and equity securities

Investments in subsidiaries are carried at cost less impairment.

Cash and cash equivalents

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

Interest-bearing borrowings

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

1.6 Derivative financial instruments and hedging

Derivative financial instruments

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

Cash flow hedges

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

Fair value hedges

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

Hedging activities

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.7 Tangible fixed assets and depreciation

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

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

Cost includes directly attributable finance costs.

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

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

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

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

1.8 Intangible assets, goodwill and negative goodwill

Negative goodwill

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

Research and development

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

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

Other intangible assets

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.8 Intangible assets, goodwill and negative goodwill (continued)

Carbon trading

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

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

Amortisation

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

1.9 Renewable Obligations Certificates (ROCs)

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 stock in the balance sheet where the Company has entered into an agreement with a third party for their subsequent sale. Income from the sale of ROCs is credited to turnover once the risks and rewards of ownership have been transferred to a third party.

1.10 Investment properties

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

1.11 Government grants

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

1.12 Stocks

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

1.13 Impairment excluding stocks and deferred tax assets

Financial assets (including trade and other debtors)

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.13 Impairment excluding stocks and deferred tax assets (continued)

Non-financial assets

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

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

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

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

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

1.14 Employee benefits

Defined contribution plans

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

Defined benefit plans

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Employee benefits (continued)

Defined benefit plans (continued)

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

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

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

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

Short-term benefits

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

Termination benefits

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

Share-based payment transactions

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.14 Employee benefits (continued)

Share-based payment transactions (continued)

Share-based payment transactions in which the Company receives goods or services by incurring a liability to transfer cash or other assets that is based on the price of the Company's equity instruments are accounted for as cash-settled share-based payments. The fair value of the amount payable to employees is recognised as an expense, with a corresponding increase in liabilities, over the period in which the employees become unconditionally entitled to payment. The liability is remeasured at each balance sheet date and at settlement date. Any changes in the fair value of the liability are recognised as personnel expense in profit or loss.

1.15 Provisions

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

1.16 Turnover

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

1.17 Expenses and Income

Operating lease payments

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

Interest receivable and Interest payable

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

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

1.18 Dividend Income

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

1.19 Taxation

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

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

Notes *(continued)*

1 Accounting policies *(continued)*

1.19 Taxation (continued)

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

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

1.20 Debt issue costs

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

1.21 Share based payments

Share Option Plan

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

Performance Share Plan and Restricted Share Plan

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

1.22 Dividends on shares presented within shareholders' funds

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

Notes *(continued)*

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.

- Provisions for recoverability of trade debtors

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

- Defined benefit pension obligations

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

3 Analysis of turnover

All turnover and profit arises from the principal activities of the Company, which are carried out in the United Kingdom, and derives from the following principle elements:

	2017	2016
	£000	£000
Energy	**166,620**	142,696
Onsite Logistics	**8,816**	7,248
	175,436	149,944

4 Other operating income and expenses

	2017	2016
	£000	£000
Included in profit are the following:		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**14,247**	13,318
Leased	**8**	8
Hire of plant and machinery	**269**	287
Hire of other assets – operating leases	**49**	50
Management fees charged by parent undertaking	**660**	745
Operating lease rentals receivable – land and buildings	**(1,655)**	(1,145)

	2017	2016
	£000	£000
Exceptional items (included within cost of sales):		
Impairment reversal of tangible fixed assets	**-**	(3,590)

Notes *(continued)*

4 Other operating income and expenses *(continued)*

During 2016, the Company recognised an impairment reversal on tangible fixed assets of £3,590,000. This is a partial reversal of the impairment which was recognised in 2013 and is due to the improved contracted position on Wilton site and overall economic outlook.

5 Auditor's remuneration:

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

	2017	2016
	£000	£000
Audit of these financial statements	**92**	92

6 Remuneration of directors

	2017	2016
	£000	£000
Directors' emoluments	**168**	207
Amounts receivable under long term incentive schemes	**13**	18
Company contribution to money purchase pension scheme	**31**	31

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director were £168,000 *(2016: £151,000)* and Company pension contributions of £31,000 *(2016: £25,000)* were made to a money purchase scheme on his behalf.

	Number of directors	
	2017	2016
Retirement benefits are accruing to the following number of directors under:		
Money purchase schemes	**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	
	2017	2016
Operating	**137**	131
Administration	**41**	40
	178	171

Notes *(continued)*

7 Staff numbers and costs *(continued)*

The aggregate payroll costs of these persons were as follows:

	2017	2016
	£000	£000
Wages and salaries	**7,769**	7,439
Share based payments (note 25)	**77**	(39)
Social security costs	**858**	831
Contributions to defined contribution plans (note 24)	**1,034**	885
	9,738	9,116

All employees were based in the UK.

8 Other interest receivable and similar income

	2017	2016
	£000	£000
On amounts receivable from group undertakings	**15**	55
Bank interest receivable	**-**	28
	15	83

9 Other finance costs

	2017	2016
	£000	£000
Expected return on pension scheme assets	**3,491**	3,998
Interest on pension scheme liabilities	**(3,517)**	(4,079)
	(26)	(81)

10 Interest payable and similar charges

	2017	2016
	£000	£000
On amounts payable to group undertakings	**534**	879
Finance costs on shares classified as liabilities	**149**	149
	683	1,028

Notes *(continued)*

11 Taxation

Recognised in the profit and loss account

	2017 £000	£000	2016 £000	£000
UK corporation tax				
Current tax on income for the period	**4,041**		4,699	
Adjustments in respect of prior periods	**(55)**		163	
Total current tax		**3,986**		4,862
Deferred tax (see note 21)				
Reversal of timing differences	**(1,454)**		(1,820)	
Adjustment in respect of previous years	**1**		(1)	
Total deferred tax		**(1,453)**		(1,821)
Tax on profit on ordinary activities		**2,533**		3,041

Income tax recognised in other comprehensive income

	2017 £000	2016 £000
Remeasurement of defined benefit asset/ liability	**363**	55
Net change in fair value of hedges reclassified to profit or loss	**-**	46
	363	101

For the year ended 31 December 2017, the Company was subject to UK corporation tax at a rate of 19.25% *(2016: 20%)*.

Notes *(continued)*

11 Taxation *(continued)*

Factors affecting the tax charge for the current period

The current tax charge for the period is lower *(2016: lower)* than the standard rate of corporation tax in the UK, 19.25% *(2016: 20%)*. The differences are explained below.

	2017 £000	2016 £000
Reconciliation of effective tax rate		
Profit for the year	**13,618**	14,219
Total tax expense	**2,533**	3,041
Profit excluding taxation	**16,151**	17,260
Tax using UK corporation tax rate of 19.25% *(2016: 20%)*	**3,109**	3,452
Effects of:		
Finance charge on shares classified as liabilities	**30**	30
Expenses not deductible for tax purposes and other permanent differences	**23**	731
Income not taxable	**(502)**	-
Difference in tax rate	**(214)**	(1,385)
Other short term timing differences	**141**	51
Adjustments to tax charge in respect of previous periods	**(54)**	162
Total tax expense (see above)	**2,533**	3,041

Factors that may affect future current and total tax charges

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2017. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 December 2017 has been calculated based on these rates.

12 Dividends

The aggregate amount of dividends comprises:

	2017 £000	2016 £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	**12,351**	19,706
Aggregate amount of dividends paid in the financial year	**12,351**	19,706

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil *(2016: £nil)*.

Notes *(continued)*

13 Intangible fixed assets

	Carbon trading certificates £000
Cost	
At beginning of year	1,000
Additions	1,887
At end of year	2,887
Amortisation	
At beginning and end of year	-
Net book value	
At 31 December 2017	**2,887**
At 31 December 2016	1,000

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	14,491	298,218	428	8,499	321,636
Additions	-	-	-	3,148	3,148
Transfers between items	-	10,065	-	(10,065)	-
At end of year	14,491	308,283	428	1,582	324,784
Depreciation					
At beginning of year	4,249	217,932	428	-	222,609
Charge for year	131	14,124	-	-	14,255
At end of year	4,380	232,056	428	-	236,864
Net book value					
At 31 December 2017	**10,111**	**76,227**	**-**	**1,582**	**87,920**
At 31 December 2016	10,242	80,286	-	8,499	99,027

Included within land and buildings is leasehold land of £521,000 *(2016: £530,000)*. The remaining land and buildings are freehold. Plant and equipment as at 31 December 2017 include capitalised interest of £1.48 million *(2016: £1.48 million)*.

The Directors have reviewed the carrying amounts of tangible fixed assets at 31 December 2017 and do not believe them to be impaired.

Notes *(continued)*

15 Investment property

	2017 £000	2016 £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:		
Open Market value	**12,803**	13,760

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 to update the open market value at 31 December 2017. The valuation is based on open market value with vacant possession, in accordance with the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors.

16 Fixed asset investments

	Investment in subsidiary £
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

	2017 £000	2016 £000
Raw materials	**1,570**	1,039
Engineering spares	**1,730**	1,515
Renewable obligation certificates	**915**	3,482
	4,215	6,036

Notes *(continued)*

18 Debtors

	2017 £000	2016 £000
Trade debtors	**22,180**	15,928
Amounts due from immediate holding company	**5**	3
Amounts owed by subsidiary undertaking	**728**	1,309
Prepayments and accrued income	**1,562**	1,285
	24,475	18,525

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

19 Creditors: amounts falling due within one year

	2017 £000	2016 £000
Shares classified as liabilities (note 22)	**130**	130
Trade creditors	**10,392**	11,033
Corporation tax payable	**1,796**	2,332
Other taxation and social security	**161**	142
Accruals and deferred income	**22,460**	21,904
	34,939	35,541

20 Creditors: amounts falling due after more than one year

	2017 £000	2016 £000
Shares classified as liabilities (note 22)	**803**	803
Loan from related corporation	**29,500**	29,500
Accruals and deferred income	**1,385**	1,632
	31,688	31,935

The loan from related corporation of £29.5 million *(2016: £29.5 million)* bore an effective interest rate of 1.5% *(2016: 2.19%)* per annum and was 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 £5.195 million *(2016: £9.88 million)* as required under the terms of its power trading and fuel purchasing arrangements.

Notes *(continued)*

21 Provisions for liabilities

	Carbon provision £000	Deferred taxation £000	Total £000
At beginning of year	1	11,226	11,227
Credit to the profit and loss for the year	(2)	(1,453)	(1,455)
Charge to equity	-	363	363
At end of year	**(1)**	**10,136**	**10,135**

Deferred taxation assets and liabilities

Recognised deferred tax assets and liabilities

Recognised tax assets and liabilities are attributable to the following:

	Assets **2017** **£000**	2016 £000	**Liabilities** **2017** **£000**	2016 £000	**Net** **2017** **£000**	2016 £000
Tangible fixed assets	**-**	-	**9,949**	11,556	**9,949**	11,556
Employee benefits	**-**	(263)	**274**	-	**274**	(263)
Provisions	**(87)**	(67)	**-**	-	**(87)**	(67)
Net tax (assets)/liabilities	**(87)**	(330)	**10,223**	11,556	**10,136**	11,226

Movement in deferred tax during the year:

	At beginning of year £000	Profit and loss account charge/ (credit) £000	Amounts included through other comprehensive income £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	11,556	(1,607)	-	9,949
Other short-term timing differences	(67)	(20)	-	(87)
Pensions	(263)	174	363	274
Provision for liabilities (see above)	11,226	(1,453)	363	10,136

Notes *(continued)*

21 Provisions for liabilities *(continued)*

Movement in deferred tax during the prior year:

	At beginning of year £000	Profit and loss account charge/ (credit) £000	Amounts included through other comprehensive income £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	13,598	(2,042)	-	11,556
Other short-term timing differences	(84)	17	-	(67)
Pensions	(522)	204	55	(263)
Hedge – Interest rate swap	(46)	-	46	-
Provision for liabilities (see above)	12,946	(1,821)	101	11,226

22 Called up share capital

	2017 £000	2016 £000
Allotted, called up and fully paid		
17,000,000 Ordinary shares of £1 each	17,000	17,000
14,900,000 1% cumulative redeemable preference shares of £1 each	14,900	14,900
	31,900	31,900
Shares classified as liabilities	933	933
Shares classified in shareholders' funds	30,967	30,967
	31,900	31,900

The preference shares are valued net of the fair value of the associated dividend stream of £0.933 million *(2016: £0.933 million)* which has been reclassified within creditors.

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

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

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

Notes *(continued)*

23 Commitments

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

	2017 £000	2016 £000
Contracted	**1,253**	2,249

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

	2017 Other £000	2016 Other £000
Operating leases which expire:		
Within one year	**46**	25
In the second to fifth years inclusive	**37**	42
	83	67

24 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 £1,034,000 *(2016: £885,000).*

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 2017. The scheme's assets are stated at their market values at 31 December 2017.

Employer contributions in relation to deficit contributions over the accounting period, amounted to £1,000,000 *(2016: £1,000,000).* Employer contributions were paid at the rate of 13.1% of Pensionable Pay until 31 March 2010.

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

Notes *(continued)*

24 Pension scheme *(continued)*

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

	2017 £000	2016 £000
Total defined benefit liability	**(132,634)**	(132,348)
Defined benefit asset	**134,197**	130,875
Total employee benefits	**1,563**	(1,473)

Movements in net defined benefit liability/asset

	Defined benefit obligation		Fair value of plan assets		Net defined benefit (liability)/asset	
	2017 £000	2016 £000	**2017 £000**	2016 £000	**2017 £000**	2016 £000
Balance at 1 January	**(132,348)**	(110,678)	**130,875**	108,022	**(1,473)**	(2,656)
Included in profit or loss						
Current service cost	-	-	-	-	-	-
Past service credit	-	-	-	-	-	-
Interest (cost)/income	**(3,517)**	(4,079)	**3,491**	3,998	**(26)**	(81)
	(3,517)	(4,079)	**3,491**	3,998	**(26)**	(81)
Included in OCI						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from						
- Changes in demographic assumptions	**2,339**	-	-	-	**2,339**	-
- Change in financial assumptions	**(4,716)**	(22,851)	-	-	**(4,716)**	(22,851)
- Experience adjustment	**(476)**	1,169	-		**(476)**	1,169
Return on plan assets excluding interest income	-	-	**4,915**	21,946	**4,915**	21,946
Effect of movements in exchange rates				-		-
	(2,853)	(21,682)	**4,915**	21,946	**2,062**	264
Other						
Contributions paid by the employer	-	-	**1,000**	1,000	**1,000**	1,000
Benefits paid	**6,084**	4,091	**(6,084)**	(4,091)	-	-
Balance at 31 December	**(132,634)**	(132,348)	**134,197**	130,875	**1,563**	(1,473)

Cumulative actuarial gains/(losses) reported in the statement of comprehensive income gains and losses since the 2003 year end are £5,474,000 loss *(2016: £7,536,000 loss).*

Notes *(continued)*

24 Pension scheme *(continued)*

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

	2017 Fair value £000	2016 Fair value £000
Hedge funds	**12,348**	11,690
Equities	**45,976**	44,222
Government bonds	**7,831**	8,287
Corporate bonds	**23,898**	23,203
Gilts	**43,208**	42,967
Other	**936**	506
	134,197	130,875
Expected return on plan assets	**4,915**	21,946
Actuarial loss	**(2,853)**	(21,682)
Actual return on plan assets	**2,062**	264

At 31 December 2017, none of the fair value of scheme assets related to self-investment.

Sembcorp Utilities (UK) Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 December 2017. The total overall expected rate of return for 2016 and 2017 was 16.8% and 3.7% per annum respectively.

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

	2017 %	2016 %
Discount rate	**2.5**	2.7
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	**3.1**	3.1
- benefits accrued post May 2006	**2.2**	2.2
Future salary increases		
RPI Inflation	**3.2**	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 21.3 years if they are male and for a further 23.9 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 22.7 years after retirement if they are male and for a further 25.4 years after retirement if they are female.

Notes *(continued)*

24 Pension scheme *(continued)*

Sensitivity analysis

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

	2017	2016
	£000	£000
Discount rate +1% p.a.	**(20,291)**	(21,881)
Inflation (RPI)	**16,397**	20,192

In valuing the liabilities of the pension fund at 31 December 2017, mortality assumptions have been made as indicated below. If life expectancy had been changed to assume that all members of the fund lived for one year longer, the value of the reported liabilities at 31 December 2017 would have increased by £4,409,000 *(2016: £4,158,000)* before deferred tax.

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

With effect from 31 March 2010 the defined benefit pension scheme was closed to future accrual. The Company has contributed £1,000,000 in 2017 (*2016: £1,000,000*), and expects to contribute £1,000,000, in deficit contributions, in the next financial year.

25 Employee share schemes

Share based payments

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

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

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

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

Notes *(continued)*

25 Employee share schemes *(continued)*

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

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

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

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

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

Total expense recognised for share based payments during the year ended 31 December 2017 is £77,000 *(2016: income £39,000)* £40,000 *(£2016: £81,000)* was recharged to the Company's parent undertaking in respect of these payments.

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

(a) Share Option Plan

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

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

i) The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange Securities Trading Limited (SGX-ST) over the three consecutive trading days prior to grant date of that option. For all options granted to date, the exercise prices are set at market price.

ii) After the first 12 months of the lock-out period, SCI Group imposed a further vesting of 4 years for managers and above for retention purposes.

iii) In 2016, all options were settled by the issuance of treasury shares.

iv) The options granted expire after 5 years for non-executive directors and associated company's employees, and 10 years for the employees of SCI Group. There are no outstanding share options for non-executive directors.

v) All options expired in 2016.

Notes *(continued)*

25 Employee share schemes *(continued)*

(b) Restricted Share Plan

Under the Restricted Share Plan (SCI RSP 2010), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted shares are calibrated based on Return on Total Assets and Group Profit from Operations for awards granted in 2017.

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

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

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

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

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

Award year	No. of shares at end of year	No. of shares at beginning of year
2013	-	10,070
2014	**8,416**	18,333
2015	**21,866**	29,500
2016	**52,500**	52,500
2017	**39,000**	-
	121,782	110,403

The total number of restricted shares outstanding, including awards achieved but not released, as at end 2017, was 121,782 *(2016: 110,403)*. Of this, the total number of restricted shares in awards granted conditionally and representing 100% of targets to be achieved, but not released was 91,500 *(2016: 82,000)*. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 137,250(*2016: 123,000*) restricted shares.

In 2017, additional 5,900 (*2016: 7,850*) restricted shares were awarded for the over-achievement of the performance targets for the performance period 2015 to 2016 (*2016: 2014 to 2015*).

The total expense recognised during the year in relation to this scheme was £77,000 *(2016: credit £39,000)*.

Notes *(continued)*

26 Derivative financial instruments

Commodity contracts

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

	2017		2016	
	Assets	**Liabilities**	Assets	Liabilities
	£000	**£000**	£000	£000
Commodity contracts	**119**	**(323)**	1,733	(3,403)

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.

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

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

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

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