Sembcorp Energy UK Limited

Annual report and consolidated financial statements

Registered number 11369893

31 December 2019

Contents

Strategic report

The directors present their Strategic report for Sembcorp Energy UK Limited (the 'Company') and its subsidiaries (the 'Group') for the year ended 31 December 2019. The Company is a wholly owned subsidiary of Sembcorp Industries Ltd ('Sembcorp'), a company incorporated and listed in Singapore.

Business model

The Company was created to consolidate Sembcorp's Energy business in the UK and was the vehicle for the acquisition of the UK Power Reserve Group ('UKPR Group' or 'Flex business') in 2018. On 31 May 2019, the Company acquired Sembcorp's long-standing interest in Sembcorp Utilities (UK) Limited and thereby became the main holding company in the UK.

The Flex business was a start-up in 2010 and grew through a combination of successful acquisitions and development of brownfield and greenfield new assets. The Group's Flex business is now one of the UK's largest independent developers and operators of rapid response, flexible power generation using decentralised gas-fired reciprocating engine plants and energy storage technologies.

At 31 December 2019, the Group's Flex business portfolio included 41 sites across England and Wales with a total installed capacity of 749MW. These assets create value by providing "ancillary services" to the National Grid UK Electricity System Operator ('NGESO') which has the task of balancing and maintaining the stability of the UK electricity grid. NGESO forecasts system demand for each day and when actual demand falls short of or exceeds these forecasts our assets are called upon to support the system. For example, the rapid response nature of the Sembcorp asset portfolio allows the Sembcorp trading team to dispatch them to serve the NGESO's Short Term Operating Reserve ('STOR'), and Fast Reserve ('FR') markets where they fill gaps in the ESO's balancing requirements as they emerge. The agile nature of the assets means that they can be deployed and re-deployed into several different markets in any given day. This allows the trading team to "revenue stack" by shifting deployment strategies to capture different value pools as they emerge in the market.

The UK electricity market as a whole is seeing decreasing capacity margins due to retirement of UK's aging thermal and nuclear fleets and an increasing requirement for flexible capacity as the UK continues to build out renewable generation and the system sees larger fluctuations in supply and demand. Sembcorp Energy UK, with its fast response assets, is well positioned to serve the current and future balancing needs of the UK system.

The Flex business' key strengths include: technology IP (including its Virtual Power Station ('VPS') and control room dispatch capability), a low-cost site development model, fast-ramping and highly flexible generating assets, skilled workforce supported by the parent Sembcorp Group performing in-house operations and maintenance (O&M) and managing a wide fleet of assets ranging from gas fired co-generation plants to renewables assets and strong regulatory, commercial, legal and merchant & retail teams.

The Group also operates at Wilton International in Teesside, through its subsidiary Sembcorp Utilities (UK) Limited ('SCU UK' or 'Wilton business'), and 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, 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.

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.

Strategic report *(continued)*

Business model *(continued)*

The Group's business model at Wilton 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 Group 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 Group's traditional energy and utility supply at Wilton 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 at Wilton provides core shared services both to the Group and its customers including Site Management, effluent services, roads/estate management and analytical and environmental services. In this business the Group 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.

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

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

The Group 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 Group. This is achieved through direct communications, formal and informal meetings and the Group intranet. Employee representatives are consulted regularly on a wide range of matters affecting their current and future interests.

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

The Group 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 Group looks to minimise its environmental impact, ensuring the highest standard of environmental management.

The Group recognises the social and environmental impact on the communities around it as a result of the development and operation of its plants. Therefore, the Group 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 Group 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.

The Group supports a renewable future by providing smart, highly flexible power generation during periods of peak demand. Our fast response generating capacity using gas-fired plant is required to underpin intermittent generation sources such as wind and solar.

As referenced above the required infrastructure including commercial, corporate, finance, IT and operations & maintenance teams are now fully in place to allow further significant growth in generating capacity at limited incremental cost.

Strategic report *(continued)*

Business review

Performance

On 31 May 2019, the Company acquired Sembcorp's interest in Sembcorp Utilities (UK) Limited. The Group has assessed this combination to be an acquisition from entities under common control. The Group has opted not to re-present its comparatives and these financial statements include the results of Sembcorp Utilities (UK) Limited from 1 January 2019 to 31 December 2019. The 2019 results are therefore not directly comparable with the Group's results in 2018.

The results of the Group for the year ended 31 December 2019 are set out on page 12. During the year, total Revenue and EBITDA (pre-exceptional items) was £284.1 million *(period ended 31 December 2018: £34.7 million)* and £62.4 million *(period ended 31 December 2018: £3.1 million)* respectively. EBITDA is earnings before interest, tax, depreciation, amortisation and impairment. EBITDA is an important measure for the Group of the profitability and cash generation of its trading operations.

During October 2019 the European Commission concluded its investigation and confirmed that the British Capacity Market ('CM') scheme covering the period 2014-2024 complies with EU State aid rules, in particular with the 2014 Guidelines on State Aid for Environmental Protection and Energy. The investigation confirmed that the scheme is necessary to guarantee security of electricity supply in Great Britain and is in line with EU energy policy objectives. The investigation also found that the CM does not distort competition in the Single Market. Capacity market revenue, covering the period from October 2018 to December 2018 amounted to £3 million and was recognised in 2019.

Notwithstanding the reinstatement of the British Capacity Market scheme, the structure of the UK power market is undergoing unprecedented change in the drive towards full de-carbonisation. Whilst this presents opportunities for assets providing flexibility it also presents risk in the form of market reform and regulation.

Market conditions, within which the Group's Flex business operates, continue to be challenging. The performance of the Group's Flex business has been impacted by a combination of economic and industry factors including a reduction in underlying demand due to energy efficiency and reduced industrial production. Grid volatility has also been moderated by mild and windy winters and improved forecasting by the National Grid Electricity System Operator. As a result of these factors, flexible energy generation operators such as the Group's Flex business have been called on less frequently to balance the system.

The directors have assessed the carrying value of the Group Flex business, in comparison with its value in use, and this resulted in a gross impairment charge of £102 million being recognised in the profit or loss during the year.

The Group's Wilton business recorded a profit for the year of £21.4 million, including an exceptional gain of 11.6 million relating to sale of the Group's interest in its freehold land under a 999 year long leasehold, and revenue for the year amounted to £195 million. Excluding the exceptional gain, both profit for the year and revenue were down on the previous year due to a decrease in power and steam volumes as well as spreads.

The results for the year exclude TRIAD revenue, potentially arising in November and December 2019, which the Group generates over the winter period. Triads are the three highest half hour periods of peak power demand across the National Grid arising in the period from November to February and are determined in March. As the Group's year-end falls within the Triad window, the Group cannot, at the balance sheet date, be certain of or reasonably estimate the income generated in the current financial year. Therefore no Triad revenue, arising in November and December 2019, has been recognised. TRIAD revenue, arising in the period November 2018 to February 2019, and recognised in the current financial year amounted to £20.6 million.

The Group refinanced its borrowings during the year whereby a new external bank loan facility of £300,000,000 was agreed. The new unsecured loan facility is repayable in full in June 2024. Funds from the new external loan facility were used to repay intragroup borrowings of £280,870,000, together with the outstanding interest payable. Cash balances at 31 December 2019 amounted to £99.6 million *(2018: £22.7 million)* with net cash generating from operating activities of £33.2 million *(period ended 31 December 2018: £6.0 million)*.

Strategic report *(continued)*

Key performance indicators (KPI)

The Group 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. As far as financial performance is concerned, and to the extent necessary for an understanding of the development and position of the Group, the key measures are total revenue and EBITDA as discussed above.

The Group's KPI also include: i) monthly trading performance compared to budget by site & consolidated, ii) monthly re-forecasts of the next 12 months profit & loss and cash flows, iii) plant availability, iv) new project assessment including a life of asset returns analysis, iv) daily operations performance measuring energy generated compared with National Grid's demand & revenue generated compared with the maximum revenue opportunity, and v) a number of health and safety and employees related KPIs.

Principal risks and uncertainties

In order to maintain its trading performance, it is important that the Group's Flex business maintains its track record of successfully securing short-term contracts for both STOR and FR services to National Grid ESO, participating in the Balancing Mechanism (BM) market and near term wholesale energy markets and executing TRIAD management.

While the Group is exposed to the merchant energy markets, the directors believe that the Group is well positioned to maintain its leading position as a provider of Grid Services to the National Grid ESO and to capture value from peak prices and optimisation between day-ahead and intraday markets.

However, looking to the future, the agile nature of the assets means that they can be deployed into different markets as they emerge during the UK's drive towards carbon net-zero 2050. The enormous structural and regulatory shifts that will be required to hit the UK's legally binding net-zero target will provide opportunities for assets that can plug the system balancing gaps left by growing intermittent renewable generation. Our rapid response thermal generation and battery assets will be able to move from market to market to capture higher rents during the net-zero transition period.

The risks to trading performance in the Group's Wilton business range from the response of its customers on the Wilton site to the changing European and global economic environment. The Group's Wilton business provides industrial solutions to customers predominantly on the Wilton site in Teesside and as such the business 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 business' 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. In addition, the Group's Wilton business has to comply with a wide range of legislation and regulatory requirements including environmental and health and safety laws. The Group monitors its compliance with its regulatory and environmental obligations on an ongoing basis.

Whilst the Group does not anticipate that Brexit will have a significant impact on the Group'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, with the full range of possible effects and outcomes unknown.

COVID-19

The 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. We 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)*

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 on the Group's day-to-day operations or performance has been modest, with all of the Group's core assets and infrastructure remain in operation. The Group's cash reserves remain strong and taking account of reasonably possible changes in trading performance, the Group is expected to have a sufficient level of financial resources to meet its liabilities as they fall due.

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. We will continue to work closely with all key parties during the difficult weeks and months ahead.

Outlook

The directors remain confident that the Group 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 Group 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.

The directors believe that demand for balancing services and related markets in the UK will grow with further planned injection of intermittent renewable capacity and the necessary retirement of the UK thermal fleet (e.g. all coal generation must leave the system by 2025 and additional nuclear and combined cycle capacity is slated for retirement in the years to come). The Group is ideally placed to capitalise on this forecast market growth. An established platform is in place including IT, operations, management information systems and a committed and experienced management team which will ensure the business can maintain its leading position as a provider of balancing/flexibility services in the market. The team will continue to secure trading and energy optimisation value opportunities via its in-house merchant team.

The Group's Flex business has begun construction of its second 60MW of battery storage assets for commercial operation in early 2021. This will further enhance the capabilities of the Group's Flex business portfolio and give access to exciting new markets.

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

For example, our operability work stream is looking to support NGESO's efforts to manage system inertia. The ESO has identified that electricity system inertia is decreasing as we transition from conventional (synchronous spinning plant) to inverter connected (wind and solar) generation, leading to faster changes in system frequency. The ESO has made it clear that they have a real need to develop ways of managing this volatility. The costs of balancing the system to the consumer will run into hundreds of millions of pounds so the need for, and value of, this market is very significant. We are formulating our plans to provide services that will help the ESO manage this increasing volatility and in so doing we will capture a fair rent for the avoidance of balancing costs that we provide.

Strategic report *(continued)*

Outlook (continued)

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.

By order of the board

Nauman Ahmad
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

26 June 2020

Directors' report

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

Principal activities

The Company's principal activity is that of a holding company. The principal activities of the Group is the development and operation of flexible power generation sites across the UK and to provides industrial solutions to its customers, by delivering a range of integrated services, at Wilton International in Teesside.

On 31 May 2018 the Company acquired the entire issued share capital of Repono Holdco 1 Limited (the UK Power Reserve Group). On 31 May 2019, the Company acquired Sembcorp's interest in Sembcorp Utilities (UK) Limited and thereby became the main holdings company in the UK. Sembcorp Utilities (UK) Limited is now a wholly owned subsidiary of the Company. The Group has assessed the combination in 2019 to be an acquisition from entities under common control. The Group has opted not to re-present its comparatives and these financial statements include the results of Sembcorp Utilities (UK) Limited from 1 January 2019 to 31 December 2019.

Research and development

Whilst the Group did not incur any research and development expenditure during the period, the Group is committed to a continuing programme of research and development in order to retain a competitive position in the market.

Financial instruments

The Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk, liquidity risk and market risk are included in note 23 for these financial statements.

Proposed dividend

The directors do not recommend the payment of a dividend *(2018: £nil)*.

Directors

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

Neil McGregor	
Nauman Ahmad	
Sriram Narayanan	(resigned 12 February 2019)
Graham Cockroft	
Paul Tomlinson	(appointed 12 February 2019 and resigned 30 September 2019)

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

Employees

The Group 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 Group. This is achieved through formal and informal meetings and the Group 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 Group continues and that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year *(2018: £nil)*.

Directors' report *(continued)*

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

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

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

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

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 they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

26 June 2020

Statement of directors' responsibilities in respect of the Annual report and consolidated financial statements

The directors are responsible for preparing the Annual report, Strategic report, Directors' report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial period. Under that law they have elected to prepare the group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent company 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 group and parent company and of their profit or loss for that period. In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant, reliable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the group and parent 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 group or the parent 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 parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 group and to prevent and detect fraud and other irregularities.

KPMG LLP
One Snowhill
Snow Hill Queensway
Birmingham
B4 6GH
United Kingdom

Independent auditor's report to the members of Sembcorp Energy UK Limited

Opinion

We have audited the financial statements of Sembcorp Energy UK Limited ("the company") for the year ended 31 December 2019 which comprise the Consolidated Statement of Profit and Loss and Other Comprehensive Income, Consolidated Balance Sheet, Consolidated Statement of Changes in Equity, Consolidated Cash Flow Statement, Company Balance Sheet, Company 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 group's and of the parent company's affairs as at 31 December 2019 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements 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 group 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 group or the company or to cease their operations, and as they have concluded that the group and 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 their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

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 group's business model and analysed how those risks might affect the group and 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 group or 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
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

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

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 by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company 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 9, 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 group and parent 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 group or the parent 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

26 June 2020

Consolidated Statement of Profit and Loss and Other Comprehensive Income
for the year ended 31 December 2019

		Year ended 31 December 2019				Period ended 31 December 2018			
	Note	**Excluding depreciation, amortisation, impairment and exceptional items £000**	**Depreciation, amortisation and impairment £000**	**Exceptional items £000**	**Total £000**	Excluding depreciation, amortisation, impairment and exceptional items £000	Depreciation, Amortisation and impairment £000	Exceptional Items £000	Total £000
Revenue	*4*	**284,068**	**-**	**-**	**284,068**	34,670	-	-	34,670
Cost of sales	*11, 12*	**(205,692)**	**(102,302)**	**-**	**(307,994)**	(29,047)	(8,850)	-	(37,897)
Gross profit/(loss)		**78,376**	**(102,302)**	**-**	**(23,926)**	5,623	(8,850)	-	(3,227)
Other income	*3, 5*	**1,289**	**-**	**11,553**	**12,842**	-	-	-	-
Administrative expenses	*3, 11,12*	**(17,251)**	**(35,656)**	**-**	**(52,907)**	(2,490)	(303)	(4,577)	(7,370)
Operating profit/(loss)	*4-7*	**62,414**	**(137,958)**	**11,553**	**(63,991)**	3,133	(9,153)	(4,577)	(10,597)
Finance income	*8*	**314**	**-**	**-**	**314**	398	-	-	398
Finance expense	*3, 9*	**(15,820)**	**-**	**-**	**(15,820)**	(11,240)	-	(4,327)	(15,567)
Profit/(loss) before taxation		**46,908**	**(137,958)**	**11,553**	**(79,497)**	(7,709)	(9,153)	(8,904)	(25,766)
Taxation	*10*				**6,342**				4,267
Loss for the year/period					**(73,155)**				(21,499)
Other comprehensive income									
Items that will not be reclassified to profit or loss:									
Remeasurements of defined benefit liability/asset					**4,382**				-
Income tax on items that will not be reclassified to profit or loss					**(745)**				-
					3,637				-
Items that are or may be reclassified subsequently to profit or loss:									
Effective portion of changes in fair value of cash flow hedges					**(1,007)**				-
Related tax					**171**				-
					(836)				-
Other comprehensive income for the year/period, net of tax					**2,801**				-
Total comprehensive income for the year/period attributable to the equity holders of the parent					**(70,354)**				(21,499)

All of the activities of the Group arise from operations acquired in the current and prior period.

Consolidated Balance Sheet
at 31 December 2019

	Note	**2019**	2018
		£000	£000
Non-current assets			
Property, plant and equipment	*11*	**378,804**	278,432
Intangible assets	*12*	**48,172**	128,811
Investment property	*13*	**4,026**	-
Employee benefits	*24*	**5,365**	-
		436,367	407,243
Current assets			
Inventories	*15*	**6,322**	1,422
Contract assets	*16*	**10,622**	-
Trade and other receivables	*17*	**48,581**	16,701
Cash and cash equivalents	*18*	**99,577**	22,703
		165,102	40,826
Total assets		**601,469**	448,069
Current liabilities			
Loans and borrowings	*19*	**20,456**	15,101
Trade and other payables	*21*	**58,102**	24,565
Tax payable		**734**	-
Derivative financial liabilities	*23*	**99**	121
		79,391	39,787
Non-current liabilities			
Loans and borrowings	*19*	**446,021**	356,226
Deferred tax liabilities	*14*	**20,951**	23,241
Derivative financial liabilities	*23*	**1,007**	-
		467,979	379,467
Total liabilities		**547,370**	419,254
Net assets		**54,099**	28,815

Consolidated Balance Sheet *(continued)*

	Note	**2019** **£000**	2018 £000
Equity attributable to equity holders of the parent			
Share capital	*22*	**145,956**	50,314
Hedging reserve		**(836)**	-
Retained earnings		**(91,021)**	(21,499)
Total equity		**54,099**	28,815

These financial statements were approved by the board of directors on 26 June 2020 and were signed on its behalf by:

Nauman Ahmad
Director

Consolidated Statement of Changes in Equity

	Share capital £000	Hedging Reserve £000	Retained earnings £000	Total equity £000
Balance at 18 May 2018, the date of incorporation	-	-	-	-
Total comprehensive income for the period				
Loss for the period	-	-	(21,499)	(21,499)
Other comprehensive income for the period	-	-	-	-
Total comprehensive income for the period	-	-	(21,499)	(21,499)
Transactions with owners, recorded directly in equity				
Issue of shares	50,314	-	-	50,314
Balance at 31 December 2018	50,314	-	(21,499)	28,815
Balance at 1 January 2019	50,314	-	(21,499)	28,815
Total comprehensive income for the year				
Loss for the year	-	-	(73,155)	(73,155)
Other comprehensive income for the year	-	(836)	3,637	2,801
Total comprehensive income for the year	-	(836)	(69,518)	(70,354)
Transactions with owners, recorded directly in equity				
Issue of shares related to common control transaction	95,642	-	-	95,642
Equity-settled share-based payments	-	-	64	64
Equity-settled share-based recharge	-	-	(68)	(68)
	95,642	-	(4)	95,638
Balance at 31 December 2019	**145,956**	**(836)**	**(91,021)**	**54,099**

Consolidated Cash Flow Statement

for the year ended 31 December 2019

	Note	**Year ended 31 December 2019 £000**	Period ended 31 December 2018 £000
Cash flows from operating activities			
Loss for the period		**(73,155)**	(21,499)
Adjustments for:			
Depreciation, amortisation and impairment	*11, 12*	**137,958**	9,153
Financial income	*8*	**(314)**	(398)
Financial expense	*9*	**15,820**	15,567
Property, plant and equipment written off	*11*	**1,502**	25
Gain on disposal of freehold land	*3, 5*	**(11,553)**	-
Loss on disposal of property, plant and equipment	*5*	**496**	-
Gain on sales of Carbon trading certificates		**(1,886)**	-
Equity-settled share-based payment transactions	*24*	**64**	-
Taxation	*10*	**(6,342)**	(4,267)
		62,590	(1,419)
Proceeds from sale of carbon trading certificates		**8,717**	-
Acquisition of carbon trading certificates		**(3,776)**	-
Movement in inventories		**(854)**	246
Movement in contract assets		**(5,503)**	-
Movement in trade and other receivables		**(10,394)**	21,424
Movement in trade and other payables		**10,020**	(9,873)
Defined benefit pensions contributions	*24*	**(1,000)**	-
		59,800	10,378
Interest paid	*19*	**(22,705)**	(4,381)
Tax paid		**(3,883)**	-
Net cash from operating activities		**33,212**	5,997
Cash flows from investing activities			
Proceeds from sale of land, property, plant and equipment		**12,409**	-
Interest received		**279**	49
Acquisition of subsidiary, net of cash acquired	*2*	**-**	(197,395)
Acquisition of property, plant and equipment		**(37,797)**	(68,343)
Acquisition of intangible assets	*12*	**(250)**	(3,065)
Net cash from investing activities		**(25,359)**	(268,754)

Consolidated Cash Flow Statement *(continued)*

	Note	**Year ended 31 December 2019 £000**	Period ended 31 December 2018 £000
Cash flows from financing activities			
Proceeds from the issue of share capital	*22*	**-**	50,314
Proceeds from new inter-company borrowings, net of costs	*19*	**4,292**	370,770
Proceeds from new bank borrowings	*19*	**300,000**	-
Repayment from inter-company borrowings	*19*	**(280,870)**	-
Repayment of external borrowings	*19*	**-**	(135,505)
Payment of lease liabilities *(2018: finance lease liabilities)*	*19*	**(2,303)**	(119)
Recharge in respect of share-based payments	*24*	**(68)**	-
Net cash from financing activities		**21,051**	285,460
Net increase in cash and cash equivalents		**28,904**	22,703
Cash and cash equivalent acquired through a common control transaction	*2*	**47,970**	-
Cash and cash equivalents at beginning of year/period		**22,703**	-
Cash and cash equivalents at 31 December	*18*	**99,577**	22,703

Notes
(forming part of the financial statements)

1 Accounting policies

Sembcorp Energy UK Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 11369893 and the registered address is Sembcorp UK Headquarters, Wilton International, Middlesbrough, Cleveland, TS90 8WS.

These consolidated financial statements are presented in pound sterling, which is the Group's functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated. The comparative information cover the 227 day period from 18 May 2018, the date of incorporation, to 31 December 2018.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group"). On 31 May 2019, the Company acquired Sembcorp's interest in Sembcorp Utilities (UK) Limited and thereby became the main holding company in the UK. Sembcorp Utilities (UK) Limited is now a wholly owned subsidiary of the Company. The Group has assessed this combination to be an acquisition from entities under common control on the basis that the investment in Sembcorp Utilities (UK) Limited has simply been moved from one part of the Sembcorp group to another.

The parent company financial statements present information about the Company as a separate entity and not about its group.

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). The Company has elected to prepare its parent company financial statements in accordance with FRS 101 *Reduced Disclosure Framework*; these are presented on pages 62 to 72.

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 group 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 29.

Change in accounting policies

The Group initially applied IFRS 16 Leases from 1 January 2019. A number of other new standards are also effective from 1 January 2019 but they do not have a material effect on the Group's financial statements.

The Group 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 Group determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 *Determining whether an Arrangement contains a Lease*. The Group 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 Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The Group 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.

Impact on transition

On transition to IFRS 16 and using the modified retrospective approach, the Group opted to measure the right-of-use assets to equal the lease liabilities at 1 January 2019, with no adjustment to retained earnings. The impact on transition is summarised below.

	1 January 2019
	£000
Right-of-use assets – property, plant and equipment	**43,897**
Lease liabilities	**(43,897)**

Notes *(continued)*

1 Accounting policies *(continued)*

Change in accounting policies (continued)

When measuring lease liabilities for leases that were classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 4.053%.

	1 January 2019
	£000
Operating lease commitments at 31 December 2018 as disclosed under IAS 17 in the Group's consolidated financial statements	**63,565**
Discounted using the incremental borrowing rate at 1 January 2019	**43,897**
Finance lease liabilities recognised as at 31 December 2018	**557**
Lease liabilities at 1 January 2019	**44,454**

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. 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.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report. In addition, note 23 to the financial statements include the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; and its exposures to credit risk, liquidity risk and market risk.

The Company heads the Sembcorp Energy UK Limited Group in the United Kingdom. At the date of signing these financial statements the Company participates in the Sembcorp UK Group treasury arrangements.

In the context of the current Covid-19 outbreak, the Board of Sembcorp Energy UK Limited undertook an assessment of the ability of the Group 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 Group'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 Group's day-to-day operations or performance has been modest, with all of the Group's core assets and infrastructure remain in operation. As at 31 December 2019 the Group's borrowings amounted to £423,692,000 and cash at bank and held on deposit was £99,577,000. The Group's borrowings includes a new external term loan of £300,000,000, repayable in full in June 2024, which accrue interest at LIBOR plus a margin of 1.05% per annum; intragroup unsecured loan notes of £75,000,000 which are not due for repayment until May 2023; intragroup unsecured loan notes of £19,192,000 which are due for repayment on 31 March 2020 and intragroup unsecured loan notes of £29,500,000 with no fixed repayment date.

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

The directors are confident that the Group and 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)*

Basis of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

Acquisitions from entities under common control

Acquisitions from entities under common control are accounted for using book value accounting. Assets acquired and liabilities assumed are recognised using the book values in the financial statements of the entity transferred. Any difference between the consideration paid and the capital of the acquiree is reflected in a 'merger' reserve. Comparative information is not re-presented and the results of the entity acquired are included in the current reporting period as if the combination had occurred at the start of the current period.

Change in subsidiary ownership and loss of control

Changes in the group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

Where the group loses control of a subsidiary, the assets and liabilities are derecognised along with any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Foreign currency

Transactions in foreign currencies are translated to the respective functional currencies of Group entities 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. Foreign exchange differences arising on translation are recognised in the income statement. 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.

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 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

(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 Group 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 accounted for in accordance with IFRS 9.

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 Group’s cash management are included as a component of cash and cash equivalents for the purpose only of the cash flow statement.

(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.

Notes *(continued)*

1 Accounting policies *(continued)*

***Financial instruments** (continued)*

Financial liabilities and equity

Financial instruments issued by the Group 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 Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within its group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group 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 (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 income statement.

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

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 income statement. 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 income statement (even if those gains would normally be recognised directly in reserves).

(iv) Impairment

The Group 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 Group 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 Group 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 Group 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 Group 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 Group 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 Group 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Property, plant and equipment

Property, plant and equipment are stated at cost, which includes capitalised borrowing costs, less accumulated depreciation and accumulated impairment losses.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in profit or loss.

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Group.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated. The estimated useful lives are as follows:

- Freehold buildings 20 years
- Plant and equipment 3-20 years
- Motor vehicles 3-5 years
- Furniture and fittings 5 years

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.

Business combinations

Business combinations, which are not acquisitions from entities under common control, are accounted for by applying the acquisition method. Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

On a transaction-by-transaction basis, the Group elects to measure non-controlling interests, which have both present ownership interests and are entitled to a proportionate share of net assets of the acquiree in the event of liquidation, either at its fair value or at its proportionate interest in the recognised amount of the identifiable net assets of the acquiree at the acquisition date. All other non-controlling interests are measured at their fair value at the acquisition date.

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible assets and goodwill

Goodwill

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash-generating units and is not amortised but is tested annually for impairment. In respect of equity accounted investees, the carrying amount of goodwill is included in the carrying amount of the investment in the investee.

Capacity market contracts (Long Term STOR contracts and supplier contracts)

Capacity market contracts, Long Term STOR contracts and supplier contract are initially measured at fair value using cash flow projections over the contractual period of 1 to 15 years. These are subsequently amortised and the amortisation is recognised in profit or loss on a straight-line basis over the contractual period.

Capacity market contracts, Long Term STOR contracts and supplier contract are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

Carbon trading

Carbon allowances purchased by the Group 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 other trade payables.

Other intangible assets

Expenditure on internally generated goodwill and brands is recognised in the income statement as an expense as incurred.

Other intangible assets with a finite life that are acquired by the Group are stated at cost less accumulated amortisation and accumulated impairment losses. Other intangible assets are amortised on a straight-line basis from the date the asset is available for use. Other intangible assets are tested for impairment when there are indicators that carrying amounts may not be recoverable.

Renewable Obligations Certificates (ROCs)

The Group 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 Group 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 Group 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 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.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on the moving average principle and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of overheads based on normal operating capacity.

Notes *(continued)*

1 Accounting policies *(continued)*

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

The carrying amounts of the Group'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. 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 ("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. 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.

Leases

The Group 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 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately.

Policy applicable from 1 January 2019

At inception of a contract, the Group 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. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

This policy is applied to contracts entered into, on or after 1 January 2019.

(i) As a lessee

At commencement or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone prices. However, for the leases of property the Group has elected not to separate non-lease components and account for the lease and non-lease components as a single lease component.

The Group 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 *(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 Group by the end of the lease term or the cost of the right-of-use asset reflects that the Group 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 Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

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 Group is reasonably certain to exercise, lease payments in an optional renewal period if the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group 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, if there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, if the Group 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, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group 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 balance sheet.

Short-term leases and leases of low-value assets

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

(ii) As a lessor

At inception or on modification of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Group 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 Group 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 Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

If an arrangement contains lease and non-lease components, then the Group applies IFRS 15 to allocate the consideration in the contract.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases *(continued)*

The Group 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 Group as a lessor in the comparative period were not different from IFRS 16.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the Group determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met: the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

(i) As a lessee

In the comparative period, as a lessee the Group classified leases that transferred substantially all of the risks and rewards of ownership as finance leases. When this was the case, the leased assets were measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Minimum lease payments were the payments over the lease term that the lessee was required to make, excluding any contingent rent. Subsequent to initial recognition, the assets were accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases were classified as operating leases and were not recognised in the Group's balance sheet. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease.

(ii) As a lessor

When the Group acted as a lessor, it determined at lease inception whether each lease was a finance lease or an operating lease.

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

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 income statement in the periods during which services are rendered by employees.

Notes *(continued)*

1 Accounting policies *(continued)*

Employee benefits

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.

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 Group 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 Group 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 Group's parent grants rights to its equity instruments to the Group's employees, which are accounted for as equity-settled in the consolidated accounts of the parent, the Group 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 retained earnings.

Provisions

A provision is recognised in the balance sheet when the Group 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.

Notes *(continued)*

1 Accounting policies *(continued)*

Revenue

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable from services provided in the normal course of business, net of VAT and other sales-related taxes. The Group recognises revenue when performance obligations have been satisfied and for the Group this is when it transfers control of goods and services to the customer.

The sale of electricity and the related services are determined to be a series of distinct goods satisfied over time. This is because customers simultaneously receive and consume the benefits provided by the Group. Invoices are generated monthly based on the output delivered to the customers with typical payment terms of 30 days, consistent with market practice.

Revenue from these sales are recognised based on price (including variable considerations) specified in the contracts. Variable considerations (e.g. penalty from non-delivery of electricity to the grid) are reviewed and estimated monthly. A refund liability (included in provisions) is recognised for anticipated penalty from non-delivery of electricity to the grid, if any. Contract liability is recognised when advance from customers are received in relation to projected electricity to be delivered. The contract liability is transferred to profit or loss over the period stipulated in the contract.

Expenses

Financing income and expenses

Financing expenses comprise interest payable, finance charges on shares classified as liabilities and interest costs on leases liabilities 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 income statement. 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. Financing income comprises interest receivable on funds invested, the gains on financial assets at FVTPL, dividend income, 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 income statement on the date the entity's right to receive payments is established. Foreign currency gains and losses are reported on a net basis.

Taxation

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

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

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

Adopted IFRS not yet applied

None of the Adopted IFRSs that have been issued but not yet applied by the Group have a material impact on the Group's financial statements.

Notes *(continued)*

1 Accounting policies *(continued)*

2 Acquisitions of subsidiaries

Acquisition in the current year

On 31 May 2019, the Company acquired Sembcorp's interest in Sembcorp Utilities (UK) Limited and thereby became the main holdings company in the UK. This common control transaction resulted in the Company issuing 95,642,390 ordinary shares of £1 each to Sembcorp Utilities Pte Ltd in exchange for its entire interest in Sembcorp Utilities (UK) Limited. The Group has opted to use book value accounting, for this acquisition, on the basis that the investment in Sembcorp Utilities (UK) Limited has simply been moved from one part of the Sembcorp group to another. The Group has also opted not to re-present its comparatives and these financial statements include the results of Sembcorp Utilities (UK) Limited from 1 January 2019 to 31 December 2019.

For year ended 31 December 2019, Sembcorp Utilities (UK) Limited contributed revenue of £194,987,000 and a net profit of £21,372,000 to the Group's results.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Book values at 1 January 2019 £000
Acquiree's net assets at the acquisition date:	
Property, plant and equipment	**78,436**
Investment property	**4,026**
Intangible assets	**9,251**
Inventories	**4,046**
Trade and other receivables	**25,293**
Contract asset	**5,119**
Cash and cash equivalents	**47,970**
Trade and other payables	**(40,493)**
Loans and borrowings	**(29,500)**
Employee benefits	**(30)**
Deferred tax liabilities	**(8,476)**
Net identifiable assets and liabilities	**95,642**
Total consideration – satisfied by issuing 95,642,390 ordinary shares of £1 each	**95,642**

Notes *(continued)*

2 Acquisitions of subsidiaries *(continued)*

Acquisitions in the prior period

Acquisition of UK Power Reserve Group

On 31 May 2018, the Company acquired Repono Holdco 1 Limited and its subsidiaries. Repono Holdco 1 Limited is the parent company of the UK Power Reserve Group, the business of which is the development and operation of flexible power generation in the UK.

For the seven months ended 31 December 2018, the Repono Holdco 1 Limited group contributed revenue of £34,670,000 and a net loss of £17,663,000 to the Group's results.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Book values at 31 May 2018 £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	180,094	34,165	214,259
Intangible assets	35,741	42,104	77,845
Inventories	1,668	-	1,668
Trade and other receivables	34,289	-	34,289
Cash and cash equivalents	18,904	-	18,904
Trade and other payables	(27,191)	-	(27,191)
Derivative financial liabilities	(470)	-	(470)
External interest bearing loans and borrowings	(130,856)	-	(130,856)
Finance leases	(467)	-	(467)
Deferred tax liabilities	(10,558)	(13,143)	(23,701)
Net identifiable assets and liabilities	101,154	63,126	164,280
Goodwill arising			50,621
Total consideration – satisfied in cash			214,901

The measurement of fair values of property, plant and equipment was assessed by Smith & Williamson LLP, an independent consultant, with specialist input from Hickman-Shearer Limited, using the depreciated replacement cost approach. This approach required the replacement cost new of the asset to be depreciated over its useful economic life by applying an appropriate depreciation profile less any residual value. This figure was then further discounted to reflect any technical or economic obsolescence. This resulted in a fair value increase of £34.2 million which was recognised in the fair value acquisition balance sheet.

The fair value of separately identifiable intangible assets was also assessed by Smith & Williamson LLP. This resulted in a fair value increase of £42.1 million and included an increase of £39.7 million respect of customer related contracts and £2.4 million increase in respect of supplier contracts.

The measurement of the fair value of customer related contracts was assessed based on the Multi-period Excess Earnings Method. This reflected the present value of the projected stream of cash flows to be generated by the asset (e.g. contract) over its life. The value of the intangible asset was estimated by discounting the after-tax operating earnings associated with the asset (e.g. contract) after fair returns (or 'contributory asset charges') on all other assets employed have been deducted.

The measurement of fair value of supplier contracts was assessed based on a With and Without Method. Under this approach, the fair value of the intangible asset was determined by modelling the incremental difference in value to a company of owning the asset versus not owning the asset.

Notes *(continued)*

2 Acquisitions of subsidiaries *(continued)*

Acquisitions of UK Power Reserve Group *(continued)*

An increase in the deferred tax liability of £13.1 million was recognised as a result of the fair value adjustments.

The goodwill arising represented the value of the acquired workforce and the value associated with future earnings generated through either non-contractual services (e.g. Energy Optimisation and TRIAD) or from securing contractual services (e.g. capacity market, fast reserve and firm frequency reserve) in future which were not secured at the date of acquisition and therefore could not be recognised.

Acquisition related costs

The Group incurred acquisition related cost of £1,408,000. These costs were included in administrative expenses in the Group's consolidated income statement - see note 3.

Acquisition of Derwent Energy

On 19 June 2018, the Group completed the acquisition of Derwent Cogeneration Limited ('Derwent Energy') for cash consideration of £1,670,000. The acquisition provided the Group with connection capacity for over 200MW of new generating assets on the site of the former power Derwent Power station in Spondon, Derbyshire.

For the post acquisition period ended 31 December 2018, Derwent Energy contributed £nil to the Group's revenue and results.

Effect of acquisition

The acquisition had the following effect on the Group's assets and liabilities:

	Book values at 19 June 2018 £000	Fair value adjustments £000	Recognised values on acquisition £000
Acquiree's net assets at the acquisition date:			
Property, plant and equipment	-	1,400	1,400
Prepayments	29	-	29
Cash and cash equivalents	272	-	272
Other payables	(31)	-	(31)
Net identifiable assets and liabilities	270	1,400	1,670
Goodwill arising			-
Total consideration			1,670

The fair value of property, plant and equipment was assessed by the directors with reference to the present value of the projected stream of cash flows to be generated by the connection capacity acquired. This resulted in a fair value increase of £1.4 million which was recognised in the fair value acquisition balance sheet.

Acquisition related costs

The group incurred acquisition related cost of £112,000. These costs were included in administrative expenses in the group's consolidated income statement - see note 3.

Notes *(continued)*

3 Exceptional items

The Group presents profit measures before exceptional costs in addition to the equivalent FRS measures as the directors consider that they provide a better indication of the underlying performance of the business. The components of exceptional income/(costs) are set out below:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Presented in other income:		
Gain on disposal of freehold land (note 5)	**11,553**	-
Presented in administrative expenses:		
Acquisitions related transaction costs (note 2)	**-**	(1,520)
Acquisitions related integration costs	**-**	(500)
Costs associated with site searches	**-**	(2,557)
	-	(4,577)
Presented in finance expenses:		
Capitalised transaction costs written off (note 9)	**-**	(4,327)
	-	(8,904)

The Gain arsing on the sale of the Group'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.

Acquisition related transaction and integration costs in the prior period were items of one-off expenditure incurred in connection with the acquisition and integration of the UK Power Reserve Group and Derwent Energy – see note 2.

Following the acquisition of the UK Power Reserve Group in the prior year, the external interest bearing loans and borrowings, which were stated net of capitalised transactions costs, were settled in full. These capitalised transaction costs were written off to the profit and loss and were treated as an exceptional item.

4 Revenue

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Generation of flexible power	**89,081**	34,670
Energy and Utilities	**187,950**	-
Onsite logistics	**7,037**	-
	284,068	34,670

Timing of revenue recognition:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Products and services transferred over time	**284,068**	34,670

Notes *(continued)*

5 Other operating income/(costs)

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Gain on disposal of freehold land (note 3)	**11,553**	-
Rental income	**1,782**	-
Net loss on disposal of property, plant and equipment	**(496)**	-
Other	**3**	-
	12,842	-

6 Expenses and auditors' remuneration

Included in profit/loss are the following:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Impairment loss on goodwill (note 12)	**35,386**	-
Impairment loss on other intangible assets (note 12)	**36,587**	-
Impairment loss on property, plant and equipment (note 11)	**30,012**	-
Impairment loss on inventories	**232**	-
Depreciation of property, plant and equipment	**29,776**	6,433
Property, plant and equipment written off	**1,502**	25
Amortisation of intangible assets	**6,197**	2,720
Management fees charged by parent undertaking	**674**	-

Auditor's remuneration:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Audit of these financial statements	**5**	5
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	**320**	286
Other tax advisory services	**-**	42
All other services	**-**	21

Notes *(continued)*

7 Staff numbers and costs

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

	No. of employees Year ended 31 December 2019	No. of employees Period ended 31 December 2018
Management	**12**	6
Staff	**354**	157
	366	163

The aggregate payroll costs of these persons were as follows:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Wages and salaries	**17,876**	4,533
Share-based payments (note 24)	**64**	-
Social security costs	**1,988**	514
Contributions to defined contribution plans (note 24)	**1,724**	115
	21,652	5,162

8 Finance income

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Bank interest	**125**	49
Interest receivable on cash deposits with related parties	**152**	-
Net gain on financial instruments designated as fair value through profit or loss	**22**	349
Net interest on net defined benefit pension plan asset (note 24)	**13**	-
Other	**2**	-
	314	398

Notes *(continued)*

9 Finance expense

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Interest on bank loans and overdrafts	**3,062**	4,099
Amortisation of capitalised transaction costs	**175**	322
Capitalised transaction costs written off (note 3)	**-**	4,327
Interest on shares classified as liabilities	**50**	-
Interest on amounts payable to a related parties	**12,072**	7,416
Interest costs in respect of lease liabilities *(2018 : finance leases liabilities)*	**1,773**	12
Other	**-**	70
	17,132	16,246
Less: interest capitalised (note 11)	**(1,312)**	(679)
	15,820	15,567

10 Taxation

Recognised in the profit and loss account

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Current tax expense		
Current period	**3,875**	-
Group tax relief receivable	**-**	(3,807)
Adjustments in respect of prior periods	**1,123**	-
Current tax charge/(credit)	**4,998**	(3,807)
Deferred tax expense (note 14)		
Origination and reversal of temporary differences	**(12,418)**	(460)
Difference between CT rate for the period and deferred tax rate	**1,307**	-
Adjustment in respect of previous years	**(229)**	-
Deferred tax credit	**(11,340)**	(460)
Total tax credit	**(6,342)**	(4,267)

Notes *(continued)*

10 Taxation *(continued)*

Recognised in other comprehensive income

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Deferred tax expense (note 14)		
Remeasurement of defined benefit liability/asset	**833**	-
Effective portion of changes in fair value of cash flow hedges	**(191)**	-
Difference between CT rate for the period and deferred tax rate	**(68)**	-
Total tax expense recognised in other comprehensive income	**574**	-

Reconciliation of effective tax rate

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Loss for the year/period	**(73,155)**	(21,499)
Total tax credit	**(6,342)**	(4,267)
Loss excluding taxation	**(79,497)**	(25,766)
Tax using the UK corporation tax rate of 19%	**(15,104)**	(4,896)
Non-deductible expenses - impairment of goodwill	**6,723**	-
Other non-deductible expenses	**50**	757
Recognition of previously unrecognised tax losses	**(212)**	-
Difference between CT rate for the period and deferred tax rate (see below)	**1,307**	(128)
Under provided in prior years	**894**	-
Total tax credit	**(6,342)**	(4,267)

Factors that may affect future current and total tax charges

The Group has losses of £6,385,000, which are restricted subject to corporate interest rate restriction rules, available to relive against taxable profits. No deferred tax asset has been recognised, in respect of these losses, due to the uncertainly surrounding their future recoverability.

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 group’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 £2.5 million.

Notes *(continued)*

11 Property, plant and equipment

	Freehold land and buildings £000	Leasehold land and buildings £000	Plant and equipment £000	Motor vehicles £000	Furniture and fittings £000	Under construction £000	Total £000
Cost							
Balance at 18 May 2018	-	-	-	-	-	-	-
Acquisitions through business combinations	364	429	194,999	572	-	19,295	215,659
Additions	-	-	662	203	-	68,366	69,231
Reclassification	-	-	42,579	-	-	(42,579)	-
Write-off	-	(25)	-	-	-	-	(25)
Balance at 31 December 2018	364	404	238,240	775	-	45,082	284,865
Balance at 1 January 2019	364	404	238,240	775	-	45,082	284,865
Recognition of right-of-use asset on initial application of IFRS 16	-	43,897	-	-	-	-	43,897
Adjusted balance at 1 January 2019	364	44,301	238,240	775	-	45,082	328,762
Business combination under common control	14,561	647	308,509	428	709	2,978	327,832
Additions	-	2,347	10,494	-	326	28,289	41,456
Disposals	(287)	(410)	(1,116)	-	-	-	(1,813)
Reclassification	-	-	70,053	-	364	(70,417)	-
Transferred to intangible assets	-	-	(85)	-	-	(373)	(458)
Write-off	-	-	(3,535)	-	-	-	(3,535)
Balance at 31 December 2019	14,638	46,885	622,560	1,203	1,399	5,559	692,244
Depreciation and impairment							
Balance at 18 May 2018	-	-	-	-	-	-	-
Depreciation charge for the period	-	17	6,280	136	-	-	6,433
Balance at 31 December 2018	-	17	6,280	136	-	-	6,433
Balance at 1 January 2019	-	17	6,280	136	-	-	6,433
Business combination under common control	4,289	134	243,635	428	910	-	249,396
Depreciation charge for the period	35	2,285	27,077	183	196	-	29,776
Impairment losses	-	-	30,012	-	-	-	30,012
Disposals	-	(22)	(51)	-	-	-	(73)
Reclassification	-	-	(243)	-	243	-	-
Transferred to intangible assets	-	-	-	-	(71)	-	(71)
Write-off	-	-	(2,033)	-	-	-	(2,033)
Balance at 31 December 2019	4,324	2,414	304,677	747	1,278	-	313,440
Net book value							
At 18 May 2018	-	-	-	-	-	-	-
At 31 December 2018	364	387	231,960	639	-	45,082	278,432
At 31 December 2019	**10,314**	**44,471**	**317,883**	**456**	**121**	**5,559**	**378,804**

Notes *(continued)*

11 Property, plant and equipment *(continued)*

'Property, plant and equipment' comprise owned and leased assets that do not meet the definition of investment property.

	2019	2018
	£000	£000
Property, plant and equipment owned	**334,729**	277,793
Property, plant and equipment leased under finance lease	**-**	639
Right-of-use assets, except for investment property	**44,075**	-
	378,804	278,432

Right-of-use assets

	Leasehold land and buildings	**Motor vehicles**	**Total**
	£000	**£000**	**£000**
Balance at 1 January 2019	**-**	**639**	**639**
Recognition of right-of-use asset on initial application of IFRS 16	**43,897**	**-**	**43,897**
Additions	**2,347**	**-**	**2,347**
Disposals	**(410)**	**-**	**(410)**
Depreciation on disposals	**22**	**-**	**22**
Depreciation charge for the year	**(2,237)**	**(183)**	**(2,420)**
Balance at 31 December 2019	**43,619**	**456**	**44,075**

At 31 December 2018 the net carrying amount of leased motor vehicles held under finance lease was £639,000. Following the application of IFRS 16 these have now been included in the right-of-use analysis above.

Depreciation and impairment

The depreciation and impairment is recognised in the following line items in the profit and loss account:

	Year ended 31 December 2019	Period ended 31 December 2018
	£000	£000
Cost of sales – depreciation and impairment	**59,518**	6,130
Administrative expenses – depreciation	**270**	303
	59,788	6,433

Impairment loss

Following an impairment review undertaken by the directors during the year, impairment losses of £30,012,000 were recognised in the profit and loss. See note 12 for further details.

Freehold land and buildings

Included within freehold land and buildings is freehold land of £8,473,000 *(2018: £364,000)* which is not depreciated.

Property, plant and equipment under construction

Assets under construction represent the costs of acquiring and developing sites for use in fulfilling capacity market contracts. The cost of each site will be transferred into plant and equipment and depreciated when it becomes available for use.

During the year, interest and direct staff costs amounting to £1,312,000 *(2018: £679,000)* and £580,000 *(2018: £1,428,000)* respectively were capitalised as property, plant and equipment under construction.

Notes *(continued)*

12 Intangible assets

	Goodwill £000	Capacity market contracts £000	Long term STOR contracts £000	Supplier contracts £000	Other customer contracts £000	Carbon trading certificates £000	Software £000	Total £000
Cost								
Balance at 18 May 2018	-	-	-	-	-	-	-	-
Acquisitions through business combinations	50,621	72,200	2,700	2,400	499	46	-	128,466
Additions	-	-	-	-	-	3,065	-	3,065
Balance at 31 December 2018	50,621	72,200	2,700	2,400	499	3,111	-	131,531
Balance at 1 January 2019	50,621	72,200	2,700	2,400	499	3,111	-	131,531
Business combination under common control	-	-	-	-	-	9,251	-	9,251
Transferred from tangible fixed assets	-	-	-	-	-	-	458	458
Additions	-	-	-	-	-	-	250	250
Disposals	-	-	-	-	-	(12,357)	-	(12,357)
Balance at 31 December 2019	50,621	72,200	2,700	2,400	499	5	708	129,133
Amortisation and impairment								
Balance at 18 May 2018	-	-	-	-	-	-	-	-
Amortisation for the period	-	1,514	222	967	17	-	-	2,720
Balance at 31 December 2018	-	1,514	222	967	17	-	-	2,720
Balance at 1 January 2019	-	1,514	222	967	17	-	-	2,720
Transferred from tangible fixed assets	-	-	-	-	-	-	71	71
Amortisation for the year	-	4,490	395	1,247	39	-	26	6,197
Impairment charge	35,386	36,587	-	-	-	-	-	71,973
Balance at 31 December 2019	35,386	42,591	617	2,214	56	-	97	80,961
Net book value								
At 18 May 2018	-	-	-	-	-	-	-	-
At 31 December 2018	50,621	70,686	2,478	1,433	482	3,111	-	128,811
At 31 December 2019	**15,235**	**29,609**	**2,083**	**186**	**443**	**5**	**611**	**48,172**

Notes *(continued)*

12 Intangible assets *(continued)*

Amortisation and impairment

The amortisation and impairment is recognised in the following line items in the profit and loss account:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Cost of sales – amortisation and impairment of intangibles excluding goodwill	**42,784**	2,720
Administrative expenses – impairment of goodwill	**35,386**	-
	78,170	2,720

Impairment testing

Goodwill has been allocated to the Group of CGU's which together comprise the Sembcorp Energy UK Limited ('SEUK') Group and this has been identified to relate to cash flows from non-contractual services which are inherently uncertain in nature and could be delivered from any of the CGUs, or indeed CGUs yet to be established.

Goodwill represented 24% of the total consideration of £214,901,000 paid in 2018 for the acquisition of Repono Holdco 1 Limited and its subsidiaries ('UKPR').

The initial goodwill, arising on the acquisition of UKPR, considered significant in comparison to the Group's total carrying amount of such assets was allocated to a Group of cash generating units as set out below.

	Goodwill £000
Group of CGU's comprising (SQ, CM14, CM15 and CM16)	**50,621**

Accounting standards require an impairment review to be carried out by determining the recoverable amount of each CGU. Impairment reviews are required to be performed where an indicator of impairment exists for an asset or CGU, or annually for those CGU's which contain goodwill, intangible assets with an indefinite useful life or intangible assets not yet available for use.

As noted in the Group's annual accounts for the period ended 31 December 2018, the European Court of Justice ('ECJ') found in favour of Tempus Energy, against the European Commission, and concluded that the European Commission should have opened an in-depth formal investigation into the UK Capacity Market arrangements. The judgment suspended the state aid approval for the capacity market and, as a result, the market entered a "standstill period" which prevented the UK Government from making any capacity payments under existing agreements until such time as the scheme can be approved again. During October 2019 the European Commission concluded its investigation and confirmed that the British Capacity Market scheme covering the period 2014-2024 complies with EU State aid rules, in particular with the 2014 Guidelines on State Aid for Environmental Protection and Energy. The investigation confirmed that the scheme is necessary to guarantee security of electricity supply in Great Britain, is in line with EU energy policy objectives, and does not distort competition in the Single Market.

Notwithstanding the reinstatement of the British Capacity Market scheme, the structure of the UK power market is undergoing unprecedented change in the drive towards full de-carbonisation. Whilst this presents opportunity for assets providing flexibility it also presents risk in the form of market reform and regulation.

Market conditions, within which the Group's UKPR business operates, continue to be challenging. The performance of the UKPR business has been impacted by a combination of economic and industry factors including an increase in energy capacity and a reduction in underlying demand due to energy efficiency and reduced industrial production. Grid volatility has also been moderated by mild and windy winters and improved forecasting by the National Grid Electricity System Operator. As a result of these factors, flexible energy generation operators such as UKPR have been called on less frequently to balance the system.

Notes *(continued)*

12 Intangible assets *(continued)*

Impairment testing (continued)

Management consider the above to represent an indicator of impairment.

As the above impairment indicator relates to all CGU's and goodwill allocated at Group is required to be tested annually, impairment testing has been performed in the following steps.

- An impairment test was performed at the individual CGU level without goodwill (bottom-up test).
- A second impairment test was applied to the collection of CGUs to which the goodwill relates (top-down test).

Impairment reviews are performed through a comparison of the carrying value of the CGU to their recoverable amount. The recoverable amount is calculated as the higher of the fair value less cost to sell and the value in use of the CGU. In the Group's case the recoverable amount is based on value in use calculations. The impairment reviews performed resulted in an impairment of the CM14, CM15, CM16 CGU's, as well as the goodwill allocated to the Group of CGU's.

The carrying value and the calculated value in use of each of the cash generating units, together with the impairment charge arsing/headroom is set out in the table below:

	SQ £m	CM14 £m	CM15 £m	CM16 £m	Group of CGU's £m
Carrying values					
Capacity market intangible assets	**7.8**	**35.6**	**14.5**	**11.0**	**68.9**
Goodwill	**-**	**-**	**-**	**-**	**50.6**
Other assets	**45.4**	**132.5**	**79.2**	**40.8**	**297.9**
	53.2	**168.1**	**93.7**	**51.8**	**417.4**
Value in use	**68.4**	**149.1**	**59.5**	**38.4**	**315.4**
Gross (impairment)/headroom	**15.2**	**(19.0)**	**(34.2)**	**(13.4)**	**(102.0)**
Taxation	**-**	**3.2**	**5.8**	**2.3**	**11.3**
Net (impairment)/headroom	**15.2**	**(15.8)**	**(28.4)**	**(11.1)**	**(90.7)**

The gross impairment charge arsing has been allocated as follows:

	SQ £m	CM14 £m	CM15 £m	CM16 £m	Group of CGU's £m
Capacity market intangible assets	**-**	**(11.1)**	**(14.5)**	**(11.0)**	**(36.6)**
Goodwill	**-**	**-**	**-**	**-**	**(35.4)**
Tangible fixed assets	**-**	**(7.9)**	**(19.7)**	**(2.4)**	**(30.0)**
	-	**(19.0)**	**(34.2)**	**(13.4)**	**(102.0)**

Notes *(continued)*

12 Intangible assets *(continued)*

Impairment assumptions

Value in use was determined by discounting the future cash flows generated from the continuing use of the CGU and applying the following key assumptions:

- Cash flows reflect the forecasts prepared by management, with input from an external independent consultant, and are projected over a period to 2039 and updated for the latest capital expenditure forecasts. A period to 2039 is considered appropriate as, on a long run basis, management's view is that the growing demand for electricity will exceed supply due to the volatility of renewables generation and the opportunity for gas fired assets will continue to exist. A period to 2039 also reflect the period over which the Group expects to generate economic benefit from its asset considering the estimated remaining useful lives of the assets at the balance sheet date.
- Management consider that key assumptions inherent in the long term cash flow forecasts include revenue generated from Merchant & Retail activities, the return earned from CGU assets operating within the Fast Reserve market, and, for the CM16 CGU, the % of assets operating in the Firm Frequency Response market. The assumptions in these areas were estimated by management based on either the collective experience of the management team and, or reference to historical performance (where applicable).
- Cash flows are discounted at pre-tax rates of 9.0%, 8.53%, 7.91%, 7.34% and 8.3% for the SQ, CM14, CM15, CM16 and group of CGU's respectively. The discount rates have been estimated by reference to an industry weighted average cost of capital.

Sensitivity analysis

Management recognise that changes in the key assumptions inherent in the long term cash flows (notably revenue generated from Merchant & Retail activities, the return earned from CGU assets operating within the Fast Reserve market, and, for the CM16 CGU, the % of assets operating in the Firm Frequency Response market) could lead to changes in the impairment or headroom arising. The interrelationship of these assumptions means that it is more appropriate to disclose the impact of these assumptions collectively. A reasonably possible downside change in these assumptions would result in additional net impairments of £22.3 million to the CM14 CGU, £6.9 million to the CM15 CGU, £6.5 million to the CM16 CGU and £5.2 million to the goodwill allocated across all CGUs. An overall additional net impairment charge of £40.9 million.

An increase in the pre-tax discount rates to 10.3%, 9.78%, 9.14%, 8.53% and 9.4% for the SQ, CM14, CM15, CM16 and group of CGU's respectively would result in an additional net impairments of £10.6 million to the CM14 CGU, £5.0 million to the CM15 CGU, £4.4 million to the CM16 CGU and £5.5 million to the goodwill allocated across all CGUs. An overall additional net impairment charge of £25.5 million.

A pre-tax discount rate of 13.1% would result in the SQ CGUs' recoverable amount to be equal to its carrying amount.

13 Investment property

	2019	2018
	£000	£000
Cost at beginning and end of the year/period	**-**	-
Acquired through a business combination under common control	**4,026**	
Aggregate depreciation thereon	**-**	-
Net book value at beginning and end of the year/period	**4,026**	-
On open market basis:		
Net book value	**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.

Notes *(continued)*

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	31 December 2019		31 December 2018	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Property, plant and equipment	**-**	**19,577**	-	13,030
Intangible assets	**-**	**5,517**	-	12,476
Corporate interest	**(726)**	**-**	(599)	-
Employee benefits	**-**	**912**	-	-
Derivative financial instrument	**(188)**	**-**	(17)	-
Provisions	**(99)**	**-**	-	-
Tax value of loss carry-forwards	**(4,116)**	**-**	(1,739)	-
Other	**-**	**74**	-	90
Tax (assets)/liabilities	**(5,129)**	**26,080**	(2,355)	25,596
Net of tax liabilities/(assets)	**5,129**	**(5,129)**	2,355	(2,355)
Net tax (assets)/liabilities	**-**	**20,951**	-	23,241

Movement in deferred tax during the year

	At beginning of year £000	Acquired in business combination £000	Recognised in income £000	Recognised in other comprehensive income £000	**At 31 December 2019 £000**
Property, plant and equipment	13,030	8,582	(2,035)	-	**19,577**
Intangible assets	12,476	-	(6,959)	-	**5,517**
Corporate interest	(599)	-	(127)	-	**(726)**
Employee benefits	-	(5)	172	745	**912**
Derivative financial instrument	(17)	-	-	(171)	**(188)**
Provisions	-	(101)	2	-	**(99)**
Tax value of loss carry-forwards utilised	(1,739)	-	(2,377)	-	**(4,116)**
Other	90	-	(16)	-	**74**
	23,241	8,476	(11,340)	574	**20,951**

Movement in deferred tax during the prior period

	At beginning of period £000	Acquired in business combination £000	Recognised in income £000	Recognised in other comprehensive income £000	At 31 December 2018 £000
Property, plant and equipment	-	11,798	1,232	-	13,030
Intangible assets	-	12,819	(343)	-	12,476
Corporate interest	-	-	(599)	-	(599)
Employee benefits	-	-	-	-	-
Derivative financial instrument	-	(17)	-	-	(17)
Provisions	-	-	-	-	-
Tax value of loss carry-forwards utilised	-	(965)	(774)	-	(1,739)
Other	-	66	24	-	90
	-	23,701	(460)	-	23,241

Notes *(continued)*

15 Inventories

	2019 £000	2018 £000
Raw materials and consumables	**6,322**	1,422

Included within inventories 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 £14,262,000.

Inventories are stated after an obsolescence provision of £3,870,000 *(2018: £211,000)*.

16 Contract assets

	2019 £000	2018 £000
Right to consideration in respect of renewable obligation certificates	**10,622**	-

The contract assets primarily relate to the Group'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.

17 Trade and other receivables

	2019 £000	2018 £000
Trade receivables	**18,557**	2,217
Unbilled trade receivables	**22,068**	-
Amount due from a related party – Non-trade	**23**	3,807
Other receivables	**4,045**	6,463
VAT receivable	**1,757**	2,798
Prepayments	**2,131**	1,416
	48,581	16,701

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

Trade and other receivables are stated after provision for doubtful debts of £74,000 *(2018: £nil)*.

The non-trade amount due from a related party is unsecured, interest-free and repayable on demand.

18 Cash and cash equivalents

	2019 £000	2018 £000
Cash at bank	**64,561**	22,703
Cash held on deposit	**35,016**	-
Cash and cash equivalents per cash flow statement	**99,577**	22,703

Notes *(continued)*

19 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate risk, see note 23.

	2019	2018
	£000	£000
Non-current liabilities		
Unsecured bank loans	**298,675**	-
Unsecured loan notes owed to immediate parent company	**75,000**	175,000
Unsecured loan notes owed to a related party	**29,500**	-
Loan from a related party	**-**	180,870
Lease liabilities *(2018: finance lease liabilities)* – note 20	**42,846**	356
	446,021	356,226
Current liabilities		
Unsecured loan notes owed to a related party	**19,192**	14,900
Current portion of lease liabilities *(2018: finance lease liabilities)* - note 20	**1,264**	201
	20,456	15,101

The unsecured bank loan, which is guaranteed by the Company's immediate parent undertaking, represents a £300,000,000 term loan repayable in full at maturity on 6 June 2024, or on change of control if the Company's immediate parent undertaking ceases to hold beneficially (directly or indirectly) 100% of the issued share capital of the Company. Interest accrues at LIBOR plus a margin of 1.05%. The Group drew down the full amount of this facility, on 28 June 2019, to settle loans and interest payable to a related party and its immediate parent undertaking. Arrangement fees of £1,500,000 were incurred on these borrowing and unamortised arrangement fees of £1,325,000 have been offset against the carrying value of the loan at the year end.

The unsecured loan notes owed to immediate parent company of £75,000,000 *(2018: £175,000,000)* bears interest at 7% per annum. The loan notes are repayable on the fifth anniversary of the agreement, which is dated 31 May 2018. The loan notes can be repaid earlier at the Company's discretion. Repayment made by the Company during the year amounted to £100,000,000.

The loan from a related party of £180,870,000 accrued interest at LIBOR plus a margin of 0.85% and was unsecured. This loan was repaid in full during the year.

The non-current unsecured loan notes owed to a related party of £29,500,000 bears interest rate at 1.5% per annum. These loan notes have no fixed repayment date and are available to the Group until such date both the Group and the related party agree to any repayment.

The current unsecured loan notes owed to a related party of £19,192,000 *(2018: £14,900,000)* bears interest rate at 7% per annum and are repayable in full on 31 March 2020.

The Group was in compliance with its unsecured bank loan covenant requirements at the balance sheet date.

The maturity profile of the Group's loans and borrowings (excluding lease liabilities and finance leases) was as follows:

	2019	2018
	£000	£000
Less than one year	**19,192**	14,900
Between one and five years	**404,500**	355,870
More than five years	**-**	-
	423,692	370,770

Notes *(continued)*

19 Loans and borrowings *(continued)*

Finance lease liabilities (under IAS 17)

Finance lease liabilities under IAS 17 were payable as at 31 December 2018 as follows:

	Minimum lease payments 2018 £000	Interest 2018 £000	Principal 2018 £000
Less than one year	**222**	**21**	**201**
Between one and five years	**392**	**36**	**356**
	614	**57**	**557**

Changes in liabilities from financing activities

	2019			2018	
	Loans and borrowings £000	**Lease liabilities £000**	**Finance lease liabilities £000**	Loans and borrowings £000	Finance lease liabilities £000
Balance at beginning of year/period – as previously stated	**370,770**	**-**	**557**	-	-
Initial application of IFRS 16	**-**	**44,454**	**(557)**	-	-
Balance at beginning of year/period – as restated	**370,770**	**44,454**	**-**	-	-
Changes from financing cash flows					
Proceeds from loans and borrowings	**304,292**	**-**	**-**	370,770	-
Repayment of borrowings	**(280,870)**	**-**	**-**	(135,505)	-
Payment of lease liabilities	**-**	**(2,303)**	**-**	-	-
Payment of finance lease liabilities	**-**	**-**	**-**	-	(119)
Total changes from financing cash flows	**23,422**	**(2,303)**	**-**	235,265	(119)
Changes arising from obtaining control of subsidiaries (note 2)	**29,500**	**-**	**-**	130,856	467
Other changes					
New leases	**-**	**1,959**	**-**	-	-
New finance leases	**-**	**-**	**-**	-	209
Changes in outstanding interest payable	**5,573**	**-**	**-**	(7,216)	-
Capitalised borrowing costs	**1,312**	**-**	**-**	679	-
Interest expense	**14,047**	**1,773**	**-**	15,555	12
Interest paid	**(20,932)**	**(1,773)**	**-**	(4,369)	(12)
Total other changes	**-**	**1,959**	**-**	4,649	209
Balance at end of year/period	**423,692**	**44,110**	**-**	370,770	557

Notes *(continued)*

20 Leases

Leases as a lessee

Lease liabilities *(2018: finance lease liabilities)* included in loans and borrowings are as follow:

	2019	2018
	£000	£000
Current	**1,264**	201
Non-current	**42,846**	356
	44,110	557

The Group leases land sites across England and Wales as part of its UKPR operations. The leases typically run for a period of 25 years with maturity dates ranging from 2022 to 2048. Lease payments are generally renegotiated every 3 to 5 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices.

The Group also leases motor vehicles with contract terms of three years. These leases were classified as finance leases under IAS 17.

Information about leases for which the Group is a lessee is presented below. Information about the right-of-use assets in included in note 11.

	Lease liabilities £000	**Finance lease liabilities £000**	**Total £000**
Balance at beginning of the year	**-**	**557**	**557**
Initial application of IFRS 16	**44,454**	**(557)**	**43,897**
Adjusted balance at beginning of the year	**44,454**	**-**	**44,454**
New leases	**1,959**	**-**	**1,959**
Interest on lease liabilities – recognised in profit or loss	**1,773**	**-**	**1,773**
Lease payments – recognised in cash flow statement	**(2,303)**	**-**	**(2,303)**
Interest payments – recognised in cash flow statement	**(1,773)**	**-**	**(1,773)**
Balance at end of the year	**44,110**	**-**	**44,110**

Operating lease costs, under IAS 17, in 2018 amounted to £1,381,000 and were recognised in profit or loss.

Maturity analysis – contractual undiscounted cash flow

	2019
	£000
Within one year	**3,483**
Between one and five years	**12,955**
After five years	**48,543**
	64,981

Leases as a lessor

The Group leases out certain of its freehold land and buildings at its site in Teesside. The Group 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 Group during 2019 was £1,782,000 *(2018: £nil)*.

Notes *(continued)*

20 Leases *(continued)*

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

	2019
	£000
Within one year	**746**
Between one and five years	**1,925**
After five years	**2,261**
	4,932

21 Trade and other payables

	2019	2018
	£000	£000
Current		
Trade payables	**6,467**	4,709
Other trade payables and deferred income	**40,859**	-
Non-trade payables and accrued expenses	**8,156**	12,640
VAT payable	**433**	-
Interest payable on bank loans	**415**	-
Interest payable to related parties	**1,772**	7,216
	58,102	24,565

Included within trade and other payables is £nil *(2018: £nil)* expected to be settled in more than 12 months.

22 Capital and reserves

Share capital

	No. of shares 2019	No. of shares 2018
On issue at 1 January/issued on incorporation	**50,314,252**	1
Subsequently issued for cash	**-**	50,314,251
Subsequently issued for a business combination under common control	**95,642,390**	-
On issue at 31 December – fully paid	**145,956,642**	50,314,252

	2019	2018
	£000	£000
Allotted, called up and fully paid		
145,956,642 *(2018: 50,314,252)* ordinary shares of £1 each	**145,956**	50,314
Shares classified in shareholders' funds	**145,956**	50,314

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. Full details of the rights attaching to the ordinary shares are set out in the Articles of Association, which are publically available at Companies House.

No dividends were recognised during the year *(2018: £nil)*.

Notes *(continued)*

23 Financial instruments

The Group's financial assets and liabilities consist primarily of cash and cash equivalents, trade and other receivables, trade and other payables and interest-bearing loans and borrowings. The Group also uses interest rate swaps, in line with its risk management policies, to manage the interest rate risk of the Group. All financial assets and liabilities are denominated in sterling.

Fair value of financial instruments

Cash and cash equivalents

The fair value of cash and cash equivalents is estimated at its carrying value where the cash is repayable on demand. Where it is not repayable on demand then the fair value is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Trade and other receivables

The fair value of trade and other receivables is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Trade and other payables

The fair value of trade and other payables is estimated at the present value of future cash flows, discounted at the market rate of interest at the balance sheet date.

Interest-bearing borrowings

The fair value of interest-bearing borrowings is estimated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the balance sheet date.

Derivative financial instruments – interest rate swaps

The fair value of interest rate swaps is based on broker quotes. Those quotes are tested for reasonableness by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates for a similar instrument at the measurement date.

Fair value hierarchy

Financial instruments are analysed into a fair value hierarchy based on the valuation technique used to determine fair value.

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial instruments measured at fair value are the interest rate swaps. This is a level 2 valuation based on techniques noted above.

Notes *(continued)*

23 Financial instruments *(continued)*

Management of financial risks

The fair values of financial assets and financial liabilities by class together with their carrying amounts shown in the balance are set out below. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value. Further, for the current year the fair value disclosures of lease liabilities is also not required.

	2019		2018	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Loans and receivables				
Cash and cash equivalents	**99,577**	**99,577**	22,703	22,703
Trade receivables	**40,625**	**40,625**	2,217	2,217
Other receivables	**4,068**	**4,068**	10,270	10,270
Total financial assets	**144,270**	**144,270**	35,190	35,190
Financial liabilities measured at amortised cost				
Trade and other payables	**52,828**	**52,828**	24,565	24,565
Interest-bearing loans	**422,367**	**423,692**	370,770	370,770
Finance lease liabilities	**-**	**-**	557	557
	475,195	**476,520**	395,892	395,892
Financial liabilities measured as fair value designated as a hedge				
Derivative financial liabilities – Interest rate swaps used for hedging	**1,007**	**1,007**	-	-
Financial liabilities measured as fair value through profit or loss				
Derivative financial liabilities – Interest rate swaps	**99**	**99**	121	121
Total financial liabilities	**476,301**	**477,626**	396,013	396,013

The Group has exposure to commodity price risk, credit risk, liquidity risk and interest rate risk from its use of financial instruments.

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk and the Group's management of capital. Further quantitative disclosures are included throughout these financial statements.

The board of directors have overall responsibility for the establishment and oversight of the Group's risk management framework.

The Group's risk management policies are established by the board of directors to identify and analyse the risks faced by the Group to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in activities. In conjunction with these policies, the Group offers training and development to instil a disciplined and constructive control environment in which all employees understand their roles and obligations.

Commodity price risk

The Group is potentially exposed to commodity price risk, in particular to movements in power prices. The Group 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.

Notes *(continued)*

23 Financial instruments *(continued)*

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Group's exposure to credit risk at UKPR is deemed low because the material receivable balances are due from blue chip companies operating in a regulated market. For SCU UK the Group has established a credit policy under which each new customer is analysed individually for creditworthiness before the Group's standard payment and delivery terms and conditions are offered. The Group's review includes external ratings, if they are available, financial statements, credit agency information and industry information. Sale limits are established for each customer and reviewed quarterly. Majority of the Group's customers at SCU UK have been transacting with SCU UK for over four years, and none of these customers' balances have been written off or are credit-impaired at the reporting date.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. At the balance sheet date, £187,000 *(2018: £nil)* of the trade receivables balances were 1-30 days past due. None of the trade receivables were more than 30 days past due. An impairment allowance of £74,000 was recorded against these amounts based on actual credit loss experience over the past years.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meets its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group regularly reviews its cash flow requirements and ensures sufficient funds are available to meet its liabilities as they fall due.

As at 31 December 2019 cash and cash equivalents covered the amounts of interest-bearing loans and borrowings maturing in the next 12 months. Details of the total borrowing facilities are set out in note 19.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the effect of netting agreements:

31 December 2019	**Carrying amount £000**	**Contractual cash flows £000**	**1 year or less £000**	**2 to 5 years £000**	**5 years and over £000**
Non-derivative financial liabilities					
Trade and other payables	**52,828**	**52,828**	**52,828**	**-**	**-**
Lease liabilities	**44,110**	**64,981**	**3,483**	**12,955**	**48,543**
Other interest-bearing loans and borrowings	**423,692**	**470,499**	**31,218**	**439,281**	**-**
Derivative financial liabilities					
Interest rate swaps used for hedging	**1,106**	**1,106**	**99**	**1,007**	**-**
	521,736	**589,414**	**87,628**	**453,243**	**48,543**

31 December 2018	Carrying amount £000	Contractual cash flows £000	1 year or less £000	2 to 5 years £000	5 years and over £000
Non-derivative financial liabilities					
Trade and other payables	24,565	24,565	24,565	-	-
Finance lease liabilities	557	614	222	392	-
Other interest-bearing loans and borrowings	370,770	430,198	31,098	399,100	-
Derivative financial liabilities					
Interest rate swaps used for hedging	121	121	121	-	-
	396,013	455,498	56,006	399,492	-

The above analysis assumes that the terms at the balance sheet date remain constant and interest is calculated on an undiscounted basis using rates applicable at the period end.

Notes *(continued)*

23 Financial instruments *(continued)*

Interest rate risk

The Group manages its exposure to interest rate risk on its long term borrowings through the proportion of fixed and variable rate net debt in its total net debt portfolio. The proportion of floating rate debt is kept at a minimum and this is reviewed, in conjunction with Sembcorp group treasury, on an ad hoc basis and approved by the board of directors.

To manage the proportion of fixed and variable net debt, the Group enters into a variety of derivative financial instruments, such as interest rate swaps and forward-starting interest rate swaps. All derivatives must be entered into with counterparties with a credit rating of A or higher.

The Group's unsecured loan notes owed to immediate parent company of £75,000,000 *(2018: £175,000,000)* and the unsecured loan notes owed to a related party of £19,192,000 *(2018: £14,900,000)* bears interest rate at 7% per annum. The non-current unsecured loan notes owed to a related party of £29,500,000 *(2018: £nil)* bears interest rate at 1.5% per annum. The Group is therefore exposed to interest rate fluctuations on its external unsecured bank loans which bears interest at LIBOR plus a margin of 1.05%.

In line with the Group's interest risk management policy and strategy noted above, the Group has selected the new external unsecured bank loan facility of £300,000,000, which carries interest at a variable rate with maturity on 6 June 2024, to be swapped from floating to fixed through the use of interest rate swaps. The total notional amount of the interest rate swaps is £300,000,000, with maturity date of 6 June 2024, to align with the total notional amount of the new external bank loan facility. This results in a hedge ratio of 1:1 or 100%.

In view of the above, a change in interest rates at the reporting date would not affect the Group's profit or loss.

Capital management

The Board views its finance capital as primarily comprising share capital, interest-bearing loans and operating cash flows. The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

In order to maintain or adjust the capital structure, the Group may adjust any dividends paid to shareholders, return capital to investors, issue new shares or sell assets to reduce debt.

24 Employee benefits

Defined contribution pension scheme

The Group's subsidiary, Sembcorp Utilities (UK) Limited, operates a defined contribution pension scheme, the Sembcorp Stakeholder Pension Scheme. The pension cost charge for the period represents contributions payable by the Group to the scheme and amounted to £1,489,000 *(2018: £nil)*.

Contributions payable to The National Employment Savings Trust (NEST), a defined contribution workplace pension scheme, during the year amounted to £235,000 *(2018: £115,000)*.

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

Defined benefit pension scheme

Sembcorp Utilities (UK) Limited also 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.

Notes *(continued)*

24 Employee benefits *(continued)*

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)**	-
Plan assets	**131,387**	-
Net pension asset	**5,365**	-

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	**-**	-	**-**	-	**-**	-
Business combination under common control	**(121,306)**	-	**121,276**	-	**(30)**	-
Included in profit or loss						
Current service cost	**-**	-	**-**	-	**-**	-
Past service charge	**-**	-	**-**	-	**-**	-
Interest (cost)/income	**(3,250)**	-	**3,263**	-	**13**	-
	(3,250)	-	**3,263**	-	**13**	-
Included in OCI						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from						
- Changes in demographic assumptions	**2,465**	-	**-**	-	**2,465**	-
- Change in financial assumptions	**(8,151)**	-	**-**	-	**(8,151)**	-
- Experience adjustment	**76**	-	**-**	-	**76**	-
Return on plan assets excluding interest income	**-**	-	**9,992**	-	**9,992**	-
	(5,610)	-	**9,992**	-	**4,382**	-
Other						
Contributions paid by the employer	**-**	-	**1,000**	-	**1,000**	-
Benefits paid	**4,144**	-	**(4,144)**	-	**-**	-
	4,144	-	**(3,144)**	-	**1,000**	-
Balance at 31 December	**(126,022)**	-	**131,387**	-	**5,365**	-

Cumulative actuarial gains/(losses) reported in the statement of comprehensive income gains and losses are £4,382,000 gain.

Notes *(continued)*

24 Employee benefits *(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**	-
Equities	**24,357**	-
Government bonds	**7,870**	-
Corporate bonds	**35,498**	-
Gilts	**50,580**	-
Other	**1,052**	-
	131,387	-
Expected return on plan assets	**3,263**	-
Remeasurement gain on scheme assets	**9,992**	-
Actual return on plan assets	**13,255**	-

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**	-
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	**2.55**	-
- benefits accrued post May 2006	**2.0**	-
RPI Inflation	**2.6**	-
CPI Inflation	**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.

Notes *(continued)*

24 Employee benefits *(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.

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

In valuing the liabilities of the pension fund at 31 December 2019, 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 2019 would have increased by £5,241,000 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 Group has contributed £1,000,000 in 2019, and expects to contribute £1,000,000, in deficit contributions, in the next financial year.

The Group 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.

Share based payments

Share options in the penultimate parent company, Sembcorp Industries Ltd (“SCI”), are granted to certain employees within the Group. 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 was £64,000 and £68,000 was recharged to the Group.

Notes *(continued)*

24 Employee benefits *(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 Group 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 performance shares were awarded during 2019.

The total number of performance shares outstanding, including awards achieved but not released, as at end 2019, was 136,000.

The total expense recognised during the year in relation to this scheme was £27,000.

(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)*

24 Employee benefits *(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 Group 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 restricted shares were released during 2019 and 14,820 restricted shares lapsed due to under-achievement of the performance targets. 38,250 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.

The total expense recognised during the year in relation to this scheme was £37,000.

25 Related parties

Transactions with key management personnel

The compensation of key management personnel (including the directors) is as follows:

	Year ended 31 December 2019 £000	Period ended 31 December 2018 £000
Key management remuneration including social security costs	**1,894**	676
Company contributions to pension schemes	**169**	32
	2,063	708

Transactions with other related parties

During the year, interest payable to related parties on inter-company loans and borrowings totalled £12,072,000 *(2018: £7,216,000)*. Interest receivable on cash deposits with related parties was £152,000 *(2018: £nil)* and Management fees charged by parent undertaking was £674,000 *(2018: £nil)*.

Notes *(continued)*

26 Commitments

Capital commitments to purchase property, plant and equipment at the end of the year, for which no provision has been made, total £27,653,000 *(2018: £52,404,000)*.

27 Contingencies

The Group 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 £21,300,000.

28 Subsequent events

The recent outbreak of COVID-19 is clearly concerning and the 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 the Group's day-to-day operations or performance has been modest, with all of the Group's core assets and infrastructure remain in operation. As at the date of approval of the financial statements, the Group is well positioned given its current financial position and strong liquidity position.

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.

29 Accounting estimates and judgements

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of estimation, uncertainty and judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements are described in the following notes:

Impairment of intangible assets - Note 12 - Intangible assets

The Group assesses whether there are any indications of impairment of all non-financial assets at each reporting date. Goodwill and intangible assets are tested for impairment annually and at other times when there are indicators that the carrying amounts may not be recoverable.

This requires an estimation of the value-in-use of the cash-generating units to which the non-financial assets are allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Information about the assumptions and their risk factors relating to non-financial assets are disclosed in note 12.

The other key assumptions inherent in the long term cash flow forecasts include revenue generated from Merchant & Retail activities, the return earned from CGU assets operating within the Fast Reserve market, and, for the CM16 CGU, the % of assets operating in the Firm Frequency Response market. The assumptions in these areas were estimated by management based on either the collective experience of the management team and, or reference to historical performance (where applicable). The impact of a reasonably possible downside change in these assumptions is shown in note 12.

Notes *(continued)*

29 Accounting estimates and judgements *(continued)*

Valuation - Note 12 - Intangible assets

Management engaged Smith & Williamson LLP to estimate the fair value of certain intangible assets, plant and machinery ("P&M") and residual goodwill acquired within UK Power Reserve Group on 31 May 2018 as disclosed in note 2.

The value of an intangible asset was estimated by discounting the after-tax operating earnings associated with the asset (e.g. contract) after fair returns (or 'contributory asset charges') on all other assets employed were deducted over the contractual period of 1 to 15 years.

Defined benefit pensions

The Group has an obligation to pay defined benefit pension benefits to certain employees. The cost of these benefits and the present value of the obligation depend on a number of factors, including life expectancy, price inflation, demographic assumptions, asset valuations and the discount rate on corporate bonds. Management estimates these factors in determining the pension scheme assets and obligations in the balance sheet. The assumptions reflect historical experience and current trends. See note 24 for the disclosures of the defined benefit pension scheme.

Company Balance Sheet
at 31 December 2019

	Note	**2019**		2018	
		£000	**£000**	£000	£000
Fixed assets					
Investments	*3*		**209,013**		102,988
Current assets					
Debtors (including £121,810,000 *(2018: £301,983,000)* due after more than one year)	*4*	**203,404**		321,845	
Cash at bank and in hand		**4,206**		-	
Cash held on deposit		**35,016**		-	
		242,626		321,845	
Creditors: amounts falling due within one year	*5*	**(22,246)**		(22,186)	
Net current assets			**220,380**		299,659
Total assets less current liabilities			**429,393**		402,647
Creditors: amounts falling due after more than one year	*6*		**(374,682)**		(355,870)
Net assets			**54,711**		46,777
Capital and reserves					
Called up share capital	*8*		**145,956**		50,314
Hedging reserve			**(836)**		-
Profit and loss account			**(90,409)**		(3,537)
Shareholders' funds			**54,711**		46,777

These financial statements were approved by the board of directors on 26 June 2020 and were signed on its behalf by:

Nauman Ahmad
Director

Company registered number: 11369893

Company Statement of Changes in Equity

	Share capital £000	Hedging reserve £000	Profit and loss account £000	Total equity £000
Balance at 18 May 2018, the date of incorporation	-	-	-	-
Total comprehensive income for the period				
Profit or loss	-	-	(3,537)	(3,537)
Other comprehensive income	-	-	-	-
Total comprehensive income for the period	-	-	(3,537)	(3,537)
Transactions with owners, recorded directly in equity				
Issue of shares	50,314	-	-	50,314
Balance at 31 December 2018	50,314	-	(3,537)	46,777
Balance at 1 January 2019	50,314	-	(3,537)	46,777
Total comprehensive income for the year				
Profit or loss	-	-	(86,872)	(86,872)
Other comprehensive income	-	(836)	-	(836)
Total comprehensive income for the year	-	(836)	(86,872)	(87,708)
Transactions with owners, recorded directly in equity				
Issue of shares related to common control transaction	95,642	-	-	95,642
Balance at 31 December 2019	**145,956**	**(836)**	**(90,409)**	**54,711**

Notes
(forming part of the financial statements)

1 Accounting policies

Sembcorp Energy UK Limited (the "Company") is a private company incorporated, domiciled and registered in England in the UK. The registered number is 11369893 and the registered address is Sembcorp UK Headquarters, Wilton International, Middlesbrough, Cleveland, TS90 8WS.

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 Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

Under section 408 of the Companies Act 2006 the company is exempt from the requirement to present its own profit and loss account.

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

- Cash Flow Statement and related notes;
- 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 compensation for Key Management Personnel.

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

- 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 10.

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.

Impairment of non-financial assets excluding deferred tax assets

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

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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 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 accounted for in accordance with IFRS 9.

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.

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.

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.

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 income statement.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

When the forecast transaction subsequently results in the recognition of a non-financial item (including a non-financial item that becomes a firm commitment for which fair value hedge accounting is applied – see below), the associated cumulative gain or loss is removed from the hedging reserve and is included in the initial carrying amount of the non-financial asset or liability.

For all other hedged forecast transactions, the associated cumulative gain or loss is removed from equity and recognised in the income statement in the same period or periods during which the hedged expected future cash flows affects profit or loss.

When the hedging instrument is sold, expires, is terminated or exercised, or the entity revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Taxation

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

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

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

2 Remuneration of directors

	2019	2018
	£000	£000
Directors' emoluments	**418**	-
Company contribution to money purchase pension scheme	**19**	-

Directors' emoluments include £301,000 *(2018: £nil)* which were paid by a related group undertaking and recharged to the Company's subsidiary.

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £301,000 *(2018: £nil)*, and Company pension contributions of £nil *(2018: £nil)* 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	**-**	-

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

Notes *(continued)*

3 Fixed asset investments

	Shares in group undertakings	
	2019	2018
	£000	£000
Cost		
At beginning of year/period	**102,988**	-
Additions	**229,480**	102,988
At end of year/period	**332,468**	102,988
Provision		
At beginning of year/period	**-**	-
Made during the year	**123,455**	-
At end of year/period	**123,455**	-
Net book value		
At 31 December	**209,013**	102,988

On 31 May 2018 the Company acquired the entire issued share capital of Repono Holdco 1 Limited for a consideration of £102,988,000.

On 31 May 2019, the Company acquired Sembcorp's interest in Sembcorp Utilities (UK) Limited. This acquisition, from entities under common control, resulted in the Company issuing 95,642,390 ordinary shares of £1 each to Sembcorp Utilities Pte Ltd in exchange for its entire interest in Sembcorp Utilities (UK) Limited.

In April 2019, the Company converted £133,838,000 of loans due from subsidiary undertakings to equity. Repono Holdco 1 Limited issued 133,837,965 'C' ordinary shares of £1 each to the Company.

Impairment

Following a review undertaken by the directors during the year, the Company's investment in Repono Holdco 1 Limited was written down by £123,455,000. See note 12 of the consolidated financial statements for further details.

As at the end of the reporting period, the Company had the following investments in subsidiaries:

Company	**Country of incorporation**	**Class of shares held**	**Ownership**	**Shareholding**
Sembcorp Utilities (UK) Limited	United Kingdom	Ordinary	100%	Direct
Wilton Energy Limited	United Kingdom	Ordinary	100%	Indirect
Repono Holdco 1 Limited	United Kingdom	Ordinary	100%	Direct
Repono Holdco 2 Limited	United Kingdom	Ordinary	100%	Indirect
Repono Interco Limited	United Kingdom	Ordinary	100%	Indirect
Repono Midco Limited	United Kingdom	Ordinary	100%	Indirect
Repono Bidco Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (Styal Road) Limited	United Kingdom	Ordinary	100%	Indirect
District Energy Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (St Helens) Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (LTC) Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (South Cornelly) Limited	United Kingdom	Ordinary	100%	Indirect
UK Capacity Reserve Limited	United Kingdom	Ordinary	100%	Indirect
Stallingborough Properties Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (Trumfleet) Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (Asfordby) Limited	United Kingdom	Ordinary	100%	Indirect
UK Power Reserve (Monckton Road) Limited	United Kingdom	Ordinary	100%	Indirect
UK Strategic Reserve Limited	United Kingdom	Ordinary	100%	Indirect

Notes *(continued)*

3 Fixed asset investments *(continued)*

Company	Country of incorporation	Class of shares held	Ownership	Shareholding
GB Developers Limited	United Kingdom	Ordinary	100%	Indirect
Repono CM Holdco Limited	United Kingdom	Ordinary	100%	Indirect
UK Energy Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Flexible Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Dynamic Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Utility Reserve Limited	United Kingdom	Ordinary	100%	Indirect
Derwent Cogeneration Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat A Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat B Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat C Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat D Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat E Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat F Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat G Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat H Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat I Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat J Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat K Limited	United Kingdom	Ordinary	100%	Indirect
Sigbat L Limited	United Kingdom	Ordinary	100%	Indirect

The registered office of Sembcorp Utilities (UK) Limited and Wilton Energy Limited is Sembcorp UK Headquarters, Wilton International, Middlesbrough, Cleveland, TS90 8WS. The registered office of all the other subsidiaries listed above is Radcliffe House, Blenheim Court, Warwick Road, Solihull, West Midlands, B91 2AA.

4 Debtors

	2019	2018
	£000	£000
Amounts due to related parties	**485**	-
Interest receivable on loans due from subsidiary undertakings	**15,085**	4,962
Loans due from subsidiary undertakings	**186,937**	316,483
Deferred tax assets (see below)	**897**	400
	203,404	321,845

Amounts due from related parties are unsecured, interest-free and repayable on demand.

Loans due from subsidiary undertakings include unsecured loan notes of £19,192,000 *(2018: £14,900,000)*, which bears interest rate at 7% per annum, and repayable in full on 31 March 2020 and unsecured loan notes of £120,913,000, which bear interest at 7% per annum, and repayable on 31 May 2023. The remaining balance of £46,832,000 *(2018: £180,670,000)* is unsecured, bearing interest at LIBOR plus a margin of 1.40%, and repayable in June 2020. During the year, the Company converted £133,838,000 of the loans due from subsidiary undertakings to equity.

Deferred tax assets and liabilities are attributable to the following:

Movement in deferred tax during the year

	At beginning of year £000	Recognised in income £000	Recognised in other comprehensive income £000	**At 31 December 2019 £000**
Corporate interest	(400)	(326)	-	**(726)**
Derivative financial instrument	-	-	(171)	**(171)**
(Assets)/liabilities	(400)	(326)	(171)	**(897)**

Notes *(continued)*

4 Debtors *(continued)*

Movement in deferred tax during the prior period

	At beginning of period £000	Recognised in income £000	Recognised in other comprehensive income £000	At 31 December 2018 £000
Corporate interest	-	(400)	-	(400)
Derivative financial instrument	-	-	-	-
(Assets)/liabilities	-	(400)	-	(400)

The deferred tax asset is not expected to reverse until after more than one year.

5 Creditors: amounts falling due within one year

	2019 £000	2018 £000
Amounts due to related parties	**5**	5
Unsecured loan notes owed to a related party	**19,192**	14,900
Interest payable on bank loans	**415**	-
Interest payable to related parties	**1,496**	7,216
Tax payable	**793**	-
Accruals	**345**	65
	22,246	22,186

Amounts due to related parties are unsecured, interest-free and repayable on demand.

The unsecured loan notes of £19,192,000 *(2018: £14,900,000)* bears interest rate at 7% per annum and are repayable in full on 31 March 2020.

6 Creditors: amounts falling due after more than one year

	2019 £000	2018 £000
Unsecured bank loans	**298,675**	-
Unsecured loan notes owed to immediate parent company	**75,000**	175,000
Loan from a related party	**-**	180,870
Derivative financial liabilities – interest rate swaps (note 7)	**1,007**	-
	374,682	355,870

The unsecured bank loan, which is guaranteed by the Company's immediate parent undertaking, represents a £300,000,000 term loan repayable in full at maturity on 6 June 2024, or on change of control if the Company's immediate parent undertaking ceases to hold beneficially (directly or indirectly) 100% of the issued share capital of the Company. Interest accrues at LIBOR plus a margin of 1.05%. The Company drew down the full amount of this facility, on 28 June 2019, to settle loans and interest payable to a related party and its immediate parent undertaking. Arrangement fees of £1,500,000 were incurred on these borrowing and unamortised arrangement fees of £1,325,000 have been offset against the carrying value of the loan at the year end.

Notes *(continued)*

6 Creditors: amounts falling due after more than one year *(continued)*

The unsecured loan notes owed to immediate parent company of £75,000,000 *(2018: £175,000,000)* bears interest at 7% per annum. The loan notes are repayable on the fifth anniversary of the agreement, which is dated 31 May 2018. The loan notes can be repaid earlier at the Company's discretion. Repayment made by the Company during the year amounted to £100,000,000.

The loan from a related party of £180,870,000 accrued interest at LIBOR plus a margin of 0.85% and was unsecured. This loan was repaid in full during the year.

The maturity profile of the Company's loans and borrowings was as follows:

	2019 £000	2018 £000
Less than one year	**19,192**	14,900
Between one and five years	**375,000**	355,870
More than five years	**-**	-
	394,192	370,770

7 Derivative financial instruments

	2019		2018	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Financial liabilities measured as fair value designated as a hedge				
Derivative financial liabilities – Interest rate swaps used for hedging	**1,007**	**1,007**	-	-

The Company selected the new external unsecured bank loan facility of £300,000,000, which carries interest at a variable rate with maturity on 6 June 2024, to be swapped from floating to fixed through the use of interest rate swaps. The total notional amount of the interest rate swaps is £300,000,000, with maturity date of 6 June 2024, to align with the total notional amount of the new external bank loan facility. This results in a hedge ratio of 1:1 or 100%.

The interest rate swaps were designated and effective as cash flow hedges at the balance sheet date and the fair value movements therefore were deferred in equity.

8 Called up share capital

	No. of shares 2019	No. of shares 2018
On issue at 1 January/issued on incorporation	**50,314,252**	1
Subsequently issued for cash	**-**	50,314,251
Subsequently issued for a business combination under common control	**95,642,390**	-
On issue at 31 December – fully paid	**145,956,642**	50,314,252

	2019 £000	2018 £000
Allotted, called up and fully paid		
145,956,642 *(2018: 50,314,252)* ordinary shares of £1 each	**145,956**	50,314
Shares classified in shareholders' funds	**145,956**	50,314

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company.

Notes *(continued)*

9 Ultimate parent undertaking and controlling party

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

10 Accounting estimates and judgements

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year relate to the valuation of the Company's investments and the recoverability of amounts due from subsidiary undertakings.

The main sensitivity around the recoverable amounts of investments and amounts due from subsidiary undertakings is the future trading performance of the Company's subsidiaries. The directors have conducted a review of the carrying value of its investments and amounts due from subsidiaries and the Company's investments in its subsidiaries were written down by £123,455,000 *(2018: £nil)* – see note 3.