Sembcorp Energy UK Limited

Annual report and consolidated financial statements

Registered number 11369893

31 December 2022

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 2022. 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 primarily decentralised gas-fired reciprocating engine plants and energy storage technologies.

At 31 December 2022, the Group's Flex business portfolio included 42 sites across England and Wales with a total installed capacity of 804MW. These assets currently create value primarily 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 supply and demand for each day and when imbalances arise 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 our assets to serve NGESO's ancillary services markets, filling gaps in the GB 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 optimise 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 derated capacity margins due to the retirement of the UK's aging thermal and nuclear fleets and an increasing requirement for flexible capacity. The growing need for flexible capacity is the result of the continued build out of renewable generation giving rise to larger fluctuations in supply and system stability.

The Flex business' key strengths include: technology IP (including 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 certain in-house operations and maintenance (O&M) tasks and managing a wide fleet of assets ranging from gas fired generation plants to battery energy storage assets and strong regulatory, commercial, legal and merchant and retail teams.

The Group also operates at Wilton International in Teesside, through its subsidiary Sembcorp Utilities (UK) Limited ('SCU UK' or 'Wilton business'), providing industrial solutions to its customers by delivering a range of integrated services. The principal elements are:

Energy	Generation and supply of multi-grade steam and power from renewable and gas-fired sources, and distribution and supply of natural gas.
Utilities	Supply of demineralised, potable and raw water, compressed air, industrial gases, and provision of effluent services.
Onsite logistics	Asset management services through the provision of integrated stores, land, buildings and warehousing, roads and way leaves, infrastructure, analytical and environmental services.

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 its 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 wide sustainable 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 supply base is fundamental to its business operations. The Group values all of its relationships and has long-term contracts with its key suppliers. To ensure the Group manages it suppliers effectively, it looks to reduce reliance on single 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 will continue its community initiatives in the next year, in particular by investing in renewable power generation capabilities for 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 trading, 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

The results of the Group for the year ended 31 December 2022 are set out on page 14. During the year, total Revenue and Operating profit before depreciation, amortisation, impairment and exceptional items was £683.3 million *(2021: £466.1 million)* and £124.7 million *(2021: £105.5 million)* respectively. Profit for the year was £62.7 million *(2021: £37.4 million).*

The structure of the UK power market is undergoing unprecedented change in the drive towards full de-carbonisation. This presents opportunity for assets providing flexibility, but it also presents risk in the form of market reform and regulation. The volatility in the global energy market due to geopolitical instability coupled with unprecedented weather conditions during the year resulted in increased volatility in the system. Our flexible generation assets contributed positively for the year as we were able to capture the resulting high prices by making optimal trading decisions. The Group's Flex business recorded a profit for the year of £57.4 million *(2021: £38.7 million loss).*

During the year, the directors assessed the carrying value of the Group's Flex business, in comparison with its value in use, and this did not result in any impairment or reversal of impairment. Overall, the directors believe that there has been no significant change in the long-term underlying market fundamentals since the prior year.

The Group's Wilton business recorded a profit for the year of £3.2 million *(2021: £2.7 million loss)*, including an exceptional gain of £nil *(2021: £7.9 million)* relating to sale of the Group's interest in a proportion of its freehold land in the prior year, and an exceptional loss of £1.7 million *(2021: £13.1 million)* relating to certain legacy site remediation obligations. Revenue for the year amounted to £446.3 million *(2021: £260.8 million)*.

The Group's balance sheet as at 31 December 2022 demonstrates that the financial position of the Group has improved with net assets of £158.3 million *(2021: £87.8 million)*. Cash balances at 31 December 2022 amounted to £215.4 million *(2021: £140.2 million)* with net cash generating from operating activities of £147.2 million *(2021: £106.9 million)*.

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 Operating profit (pre-exceptional items) before depreciation, amortisation and impairment as discussed above.

The Group's KPIs also include: i) monthly trading performance compared to budget by site and 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, v) daily operations performance measuring energy generated compared with National Grid's demand & revenue generated compared with the maximum revenue opportunity, and vi) 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 ancillary service contracts with NGESO, participating in the Balancing Mechanism (BM) and the near-term wholesale energy markets and executing TRIAD management.

While the Group is exposed to 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 NGESO 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 respond to shifting supply/demand imbalances as a result of growing intermittent renewable generation. We believe that our rapid response thermal generation and battery energy storage assets will be able to move from market to market to provide essential system services and capture higher rents during the transition to net-zero, but it is essential that these assets respond to the evolving requirements of NGESO and changing regulation in the sector in the transition to Net Zero.

Strategic report *(continued)*

Business review *(continued)*

Principal risks and uncertainties (continued)

The risks to trading performance in the Group's Wilton business range from the change in demand for utilities from 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 continuing in operational existence for the foreseeable future and to remain at Wilton. Restructuring or reduction in output by customers will impact the business' future performance and results, although this reliance has been reduced through investment into assets such as the Wilton 10 biomass project, the 44MW 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.

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 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 the continued rise of intermittent renewable capacity and the necessary retirement of the UK thermal fleet (e.g. all coal generation must leave the system by 2024 and a large proportion of the existing nuclear and combined cycle gas capacity is scheduled 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 completed construction of 50MW of battery storage assets as part of its second tranche of battery storage build-out. The new 50MW battery increased the total size of the Group's battery energy storage fleet to 120MW in 2022. This will further enhance the capabilities of the Group's Flex business portfolio and provide broader access to existing ancillary services markets.

We have also taken a final investment decision to build 150MW/300MWh of new battery storage assets at Wilton, as part of plans to ultimately build 360MW/720MWh on the site. This represents the first tranche of that broader ambition, which we expect to be operational in early 2024. We have also secured a contract in the 2022 capacity market auction for that first tranche, which becomes effective in October 2025.

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.

At our Wilton site we are exploring the potential for Carbon Capture, Usage and Sequestration (CCUS), partnering with the Teesside industrial cluster (many of whom are our onsite customers) and supporting Net Zero Teesside (NZT), which was formally launched in February 2020. Teesside has been identified by UK Government as part of one of the selected CCUS clusters (The East Coast Cluster) and we are planning to be a key contributor to these future developments.

Strategic report *(continued)*

Business review *(continued)*

Outlook (continued)

As part of its Budget statement in March 2021, the UK Government announced that Teesport would be one of eight "Freeport" areas to be set up across the UK. This announcement was immediately welcomed by the Group particularly as 200 hectares of the Wilton International site have been designated as a tax site, attracting significant financial benefits for inward investors who choose to build on the site in the coming years. This Freeport announcement should promote regeneration in the region and is an excellent spur to sustainable inward investment and job creation. Teesside has a long association with the chemical sector that has led to the creation of highly skilled roles, generating significant value for the UK and helping to develop valuable supply chains for the North East region.

At Wilton, the Group has development land available and an established "plug and play" infrastructure, enabling the benefits of a Freeport zone to be realised quickly as new investors will have the utilities they need as soon as they are operational. The Group will continue to work with its partners in the region to make the Freeport a success. The Group also believes that the Freeport will support a transition to a low carbon economy as part of its own plans, and those of its existing customers, to decarbonise operations.

The Group recognises that sustainability is the future of the global business and the UK operations adhere to the wider Sembcorp Group's purpose and passion to build a sustainable future. The UK Group's purpose, known to its employees, is to be "a leading provider of sustainable solutions supporting the UK's transition to Net Zero." The Group believes this will lead to sustainable, profitable growth and the development of key capabilities to be shared with the wider Sembcorp group, will provide rewarding opportunities for employees and will continue to create a cleaner world.

By order of the board

Andy Koss
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

28 March 2023

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2022.

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.

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 24 for these financial statements.

Proposed dividend

The directors do not recommend the payment of a dividend *(2021: £nil)*.

Directors

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

Wong Kim Yin
Andrew Koss
Eugene Cheng

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 *(2021: £nil)*.

Directors' report *(continued)*

Greenhouse gas emissions and energy consumption - unaudited

The Energy used by the Group (in MWh) during the year was as follow:

	2022	2021
Gas	**3,960,207**	4,696,984
Electricity	**55,415**	35,092
Transport	**1,697**	1,681
Total	**4,017,319**	4,733,757

The associated CO_2 emissions amounted to 520,081 *(2021: 614,469)* tonnes.

The intensity measure used by the Group is tonnes of CO_2 tonnes/MWh electricity exported and CO_2 tonnes/MWh heat exported. On these measures, the intensity values for the year were electricity exported 0.46 *(2021: 0.46)* and heat 0.19 *(2021: 0.18)*.

On the Wilton site the Group is accredited to ISO50001 which requires a commitment to having systems in place to improve energy efficiency. Energy efficiency measures taken include the upgrade to the biomass plant flue gas heat recovery unit which has increased heat recovery by 22,500 MWh, during the first full year of operation.

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.

Directors' report *(continued)*

Auditor

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

By order of the board

Andy Koss
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
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TS90 8WS

28 March 2023

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

The directors are responsible for preparing the Annual report, the Strategic report, the 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 year. Under that law they have elected to prepare the Group financial statements in accordance with UK-adopted international accounting standards 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 the Group's 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 UK-adopted international accounting standards;
- 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
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Sovereign Street
Leeds
LS1 4DA
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 2022 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 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- 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").

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.

Our conclusions based on this work:

- we consider that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group or the Company's ability to continue as a going concern for the going concern period.

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 above conclusions are not a guarantee that the Group or the Company will continue in operation.

Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud (“fraud risks”) we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of directors as to the Group’s high-level policies and procedures to prevent and detect fraud, including the Group’s channel for “whistleblowing”, as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Senior Leadership committee meeting minutes.
- Considering remuneration incentive schemes and performance targets for management and directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit.

As required by auditing standards, and taking into account possible pressures to meet profit targets, our overall knowledge of the control environment and particularly opportunity at period end, we perform procedures to address the risk of management override of controls and the risk of fraudulent revenue recognition, in particular:

- the risk that Group management may be in a position to make inappropriate accounting entries;
- the risk of bias in accounting estimates such as impairment and provisions assumptions; and
- the risk that revenue and accrued income is misstated through recording revenues in the wrong period.

We also identified a fraud risk related to Managements Value in Use model prepared for impairment testing in response to possible pressures to avoid a reversal of or further impairment across the Flex Business.

In determining the audit procedures we took into account the results of our evaluation and testing of the operating effectiveness of some of the Group-wide fraud risk management controls.

We also performed procedures including:

- Identifying journal entries and other adjustments to test based on risk criteria and comparing the identified entries to supporting documentation. These included those posted by senior finance management, those posted to unusual accounts, unexpected revenue, cash or borrowings postings and round-sum postings at period end; and
- Assessing whether the judgements made in making accounting estimates are indicative of a potential bias, including assessing the impairment and reversal of impairment estimate for bias.

Identifying and responding to risks of material misstatement related to compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience, through discussion with the directors and other management (as required by auditing standards), and from inspection of the Group’s regulatory and legal correspondence and discussed with the directors and other management the policies and procedures regarding compliance with laws and regulations.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation, pension legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation or the loss of the Group’s license to operate. We identified the following areas as those most likely to have such an effect: health and safety law, data protection law, anti-bribery and corruption law, employment law, money laundering regulation, environmental protection legislation and certain aspects of company legislation recognising the nature of the Group’s activities and its legal form.

Fraud and breaches of laws and regulations – ability to detect *(continued)*

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations (continued)

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

Strategic report and directors' report

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

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

- we have not identified material misstatements in the strategic report and the directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

- adequate accounting records have not been kept 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.

Frances Simpson

Frances Simpson (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA

30 March 2023

Consolidated Statement of Profit and Loss and Other Comprehensive Income

for the year ended 31 December 2022

		2022				2021			
	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	*3*	**683,334**	**-**	**-**	**683,334**	466,136	-	-	466,136
Cost of sales	*2, 10, 11*	**(546,249)**	**(33,107)**	**(1,661)**	**(581,017)**	(339,912)	(34,390)	(13,064)	(387,366)
Gross profit/(loss)		**137,085**	**(33,107)**	**(1,661)**	**102,317**	126,224	(34,390)	(13,064)	78,770
Other income	*2, 4*	**1,531**	**-**	**-**	**1,531**	236	-	7,885	8,121
Administrative expenses	*10, 11, 13*	**(13,935)**	**(1,553)**	**-**	**(15,488)**	(20,925)	(599)	-	(21,524)
Operating profit/(loss)	*3-6*	**124,681**	**(34,660)**	**(1,661)**	**88,360**	105,535	(34,989)	(5,179)	65,367
Finance income	*7*	**2,008**	**-**	**-**	**2,008**	153	-	-	153
Finance expense	*8*	**(8,695)**	**-**	**-**	**(8,695)**	(9,337)	-	-	(9,337)
Share of result of equity-accounted investees, net of tax	*13*	**(795)**	**-**	**-**	**(795)**	-	-	-	-
Profit/(loss) before taxation		**117,199**	**(34,660)**	**(1,661)**	**80,878**	96,351	(34,989)	(5,179)	56,183
Taxation	*9*				**(18,189)**				(18,760)
Profit for the year					**62,689**				37,423
Other comprehensive income									
Items that will not be reclassified to profit or loss:									
Remeasurements of defined benefit liability/asset					**(3,667)**				10,986
Income tax on items that will not be reclassified to profit or loss					**811**				(2,829)
					(2,856)				8,157
Items that are or may be reclassified subsequently to profit or loss:									
Effective portion of changes in fair value of cash flow hedges					**14,039**				10,479
Related tax					**(3,510)**				(2,089)
					10,529				8,390
Other comprehensive income for the year, net of tax					**7,673**				16,547
Total comprehensive income for the year attributable to the equity holders of the parent					**70,362**				53,970

All of the activities of the Group arise from continuing operations.

Consolidated Balance Sheet
at 31 December 2022

	Note	**2022** **£000**	2021 £000
Non-current assets			
Property, plant and equipment	*10*	**386,268**	345,939
Intangible assets	*11*	**69,180**	65,644
Investment property	*12*	**3,726**	3,726
Investments in equity-accounted investees	*13*	**289**	-
Employee benefits	*25*	**10,458**	12,369
Derivative financial assets	*24*	**15,677**	1,638
		485,598	429,316
Current assets			
Inventories	*15*	**9,088**	8,275
Contract assets	*16*	**11,225**	9,663
Trade and other receivables	*17*	**120,722**	118,427
Cash and cash equivalents	*18*	**215,404**	140,161
		356,439	276,526
Total assets		**842,037**	705,842
Current liabilities			
Loans and borrowings	*19*	**1,156**	1,396
Trade and other payables	*21*	**241,454**	185,972
Tax payable		**835**	4,026
Provisions	*22*	**9,735**	5,575
		253,180	196,969
Non-current liabilities			
Loans and borrowings	*19*	**373,255**	373,292
Provisions	*22*	**4,275**	10,221
Deferred tax liabilities	*14*	**53,076**	37,606
		430,606	421,119
Total liabilities		**683,786**	618,088
Net assets		**158,251**	87,754

Consolidated Balance Sheet *(continued)*

	Note	**2022** **£000**	2021 £000
Equity attributable to equity holders of the parent			
Share capital	*23*	**170,956**	170,956
Hedging reserve		**11,758**	1,229
Retained earnings		**(24,463)**	(84,431)
Total equity		**158,251**	87,754

These financial statements were approved by the board of directors on 28 March 2023 and were signed on its behalf by:

Andy Koss
Director

Consolidated Statement of Changes in Equity

	Share capital £000	Hedging reserve £000	Retained earnings £000	Total equity £000
Balance at 1 January 2021	170,956	(7,161)	(130,263)	33,532
Total comprehensive income for the year				
Profit for the year	-	-	37,423	37,423
Other comprehensive income for the year	-	8,390	8,157	16,547
Total comprehensive income for the year	-	8,390	45,580	53,970
Transactions with owners, recorded directly in equity				
Equity-settled share-based payments	-	-	323	323
Equity-settled share-based recharge	-	-	(71)	(71)
	-	-	252	252
Balance at 31 December 2021	170,956	1,229	(84,431)	87,754
Balance at 1 January 2022	170,956	1,229	(84,431)	87,754
Total comprehensive income for the year				
Profit for the year	-	-	62,689	62,689
Other comprehensive income for the year	-	10,529	(2,856)	7,673
Total comprehensive income for the year	-	10,529	59,833	70,362
Transactions with owners, recorded directly in equity				
Equity-settled share-based payments	-	-	221	221
Equity-settled share-based recharge	-	-	(86)	(86)
	-	-	135	135
Balance at 31 December 2022	**170,956**	**11,758**	**(24,463)**	**158,251**

Consolidated Cash Flow Statement
for the year ended 31 December 2022

	Note	**2022** **£000**	2021 £000
Cash flows from operating activities			
Profit for the period		**62,689**	37,423
Adjustments for:			
Depreciation, amortisation and impairment	*10, 11*	**34,660**	34,989
Financial income	*7*	**(2,008)**	(153)
Financial expense	*8*	**8,695**	9,337
Share of result of equity-accounted investees, net of tax	*13*	**795**	-
Property, plant and equipment written off	*10*	**-**	300
Gain on disposal of freehold land and investment property	*2, 4*	**-**	(7,885)
(Gain)/loss on disposal of property, plant and equipment	*4*	**(5)**	1,000
Equity-settled share-based payment transactions	*25*	**221**	323
Taxation	*9*	**18,189**	18,760
		123,236	94,094
Acquisition of carbon trading certificates		**(79,336)**	(41,951)
Movement in inventories		**(813)**	(1,478)
Movement in contract assets		**(1,562)**	(6,821)
Movement in trade and other receivables		**(2,328)**	(76,195)
Movement in trade and other payables		**128,140**	135,889
Movement in provisions	*22*	**(1,786)**	13,836
Defined benefit pensions contributions	*25*	**(1,500)**	(1,250)
		164,051	116,124
Interest paid	*19*	**(8,284)**	(9,126)
Tax paid		**(8,576)**	(67)
Net cash from operating activities		**147,191**	106,931
Cash flows from investing activities			
Proceeds from sale of land, property, plant and equipment		**5**	4,582
Proceeds from sale of investment property		**-**	3,528
Interest received		**1,752**	144
Acquisition of equity-accounted investees	*13*	**(1,994)**	-
Acquisition of property, plant and equipment		**(69,465)**	(30,677)
Acquisition of intangible assets	*11*	**(1)**	(489)
Net cash from investing activities		**(69,703)**	(22,912)

Consolidated Cash Flow Statement *(continued)*

	Note	**2022** **£000**	2021 £000
Cash flows from financing activities			
Repayment from inter-company borrowings	*19*	**-**	(50,000)
Payment of lease liabilities	*19*	**(2,159)**	(1,888)
Recharge in respect of share-based payments	*25*	**(86)**	(71)
Net cash from financing activities		**(2,245)**	(51,959)
Net increase in cash and cash equivalents		**75,243**	32,060
Cash and cash equivalents at beginning of year		**140,161**	108,101
Cash and cash equivalents at 31 December	*18*	**215,404**	140,161

Notes
(forming part of the financial statements)

1 Accounting policies

Sembcorp Energy UK Limited (the "Company") is a private company, limited by shares, 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 group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group").

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 UK-adopted international accounting standards ("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 57 to 67.

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.

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 24 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 also participates in the Sembcorp UK Group treasury arrangements whereby the overall UK facilities are managed collectively.

As at 31 December 2022 the Group's borrowings amounted to £329,500,000 and cash at bank and held on deposit was £215,404,000. The Group's borrowings include an external term loan of £300,000,000, repayable in full in June 2024 and an intragroup unsecured loan of £29,500,000 which is not due for repayment until April 2026. The Group also has an undrawn intragroup revolving loan facility of £50,000,000, available till April 2026, for any future drawdowns. The Board of Sembcorp Energy UK Limited prepared forecasts covering a period of at least twelve months from the date of approval of these financial statements. In doing so, the Board considered events throughout this period and concluded there were no specific events that bring into question the appropriateness of the going concern conclusion reached. The base case scenario considered by management included estimated commodity prices and the general economic and market conditions.

Management's assessment also considered reasonably possible changes in trading performance, including severe but plausible downside sensitivities. This scenario included a consideration of deteriorating commodity prices as well as a general decline in the economic and market conditions.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Going concern *(continued)*

In addition, the Board have assessed the availability and refinancing of the Group's financing facilities, specifically considering the expiry of the term loan in June 2024. Discussions with the Group's lenders have not yet commenced however, the Board have concluded that having regard to the Group's financial position, alongside the parental guarantee in place over the current facility, they anticipate the facility will be suitably refinanced.

The directors are confident that the Group and the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements. Accordingly, they continue to prepare both the Group and Company financial statements on a going concern basis.

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 reporting period as if the combination had occurred at the start of the 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.

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 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)*

Hedges directly affected by interest rate benchmark reform

The Group has adopted the Phase 2 amendments and retrospectively applied them from 1 January 2021. When the basis for determining the contractual cash flows of the hedged item or hedging instrument changes as a result of IBOR reform and therefore there is no longer uncertainty arising about the cash flows of the hedged item or the hedging instrument, the Group amends the hedge documentation of that hedging relationship to reflect the change(s) required by IBOR reform. For this purpose, the hedge designation is amended only to make one or more of the following changes:

- designating an alternative benchmark rate as the hedged risk;
- updating the description of the hedged item, including the description of the designated portion of the cash flows or fair value being hedged; or
- updating the description of the hedging instrument.

If changes are made in addition to those changes required by IBOR reform described above, then the Group first considers whether those additional changes result in the discontinuation of the hedge accounting relationship. If the additional changes do not result in the discontinuation of the hedge accounting relationship, then the Group amends the formal hedge documentation for changes required by IBOR reform as mentioned above.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Financial instruments *(continued)*

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.

(v) Derecognition

Financial assets

The Group derecognises a financial asset when:

- the contractual rights to the cash flows from the financial asset expire; or
- it transfers the rights to receive the contractual cash flows in a transaction in which either:
  - substantially all of the risks and rewards of ownership of the financial asset are transferred; or
  - the Group neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Group enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire. The Group also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

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

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.

(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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

Leases *(continued)*

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.

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'.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

Notes *(continued)*

1 Accounting policies *(continued)*

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.

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.

UK-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)*

2 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 given their size and one-off nature. The components of exceptional income/(costs) are set out below:

	2022	2021
	£000	£000
Presented in cost of sales:		
Site remediation costs (note 22)	**(1,661)**	(13,064)
Presented in other income:		
Gain on disposal of freehold land and investment property (note 4)	**-**	7,885

The provision for site remediation costs and the gain arsing on the sale of the Group's interest in its freehold land and investment property has been presented as an exceptional gain in the profit and loss on the basis of its quantum, and its non-recurring nature.

3 Revenue

	2022	2021
	£000	£000
Generation of flexible power	**237,022**	205,299
Energy and Utilities	**438,797**	253,823
Onsite logistics	**7,515**	7,014
	683,334	466,136

Timing of revenue recognition:

	2022	2021
	£000	£000
Products and services transferred over time	**683,334**	466,136

4 Other operating income/(costs)

	2022	2021
	£000	£000
Gain on disposal of freehold land and investment property (note 2)	**-**	7,885
Rental income	**1,526**	1,236
Net gain/(loss) on disposal of property, plant and equipment	**5**	(1,000)
	1,531	8,121

Notes *(continued)*

5 Expenses and auditors' remuneration

Included in profit/loss are the following:

	2022	2021
	£000	£000
Impairment loss on goodwill (note 13)	**910**	-
Impairment loss on trade and other receivables	**17**	51
Impairment loss on inventories	**396**	457
Reversal of loss on inventories	**-**	(2)
Depreciation of property, plant and equipment	**30,794**	31,693
Property, plant and equipment written off	**-**	300
Amortisation of intangible assets	**2,956**	3,296
Management fees charged by parent undertaking	**1,471**	829

Auditor's remuneration:

	2022	2021
	£000	£000
Audit of these financial statements	**15**	5
Amounts receivable by the company's auditor and its associates in respect of:		
Audit of financial statements of subsidiaries of the company	**388**	335

6 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 2022	No. of employees 2021
Management	**10**	12
Staff	**370**	340
	380	352

The aggregate payroll costs of these persons were as follows:

	2022	2021
	£000	£000
Wages and salaries	**24,370**	21,092
Share-based payments (note 25)	**221**	323
Social security costs	**2,932**	2,413
Contributions to defined contribution plans (note 25)	**2,402**	1,930
	29,925	25,758

Notes *(continued)*

7 Finance income

	2022 £000	2021 £000
Bank interest	**521**	1
Interest receivable on cash deposits with related parties	**1,085**	5
Other interest receivable from related parties	**146**	138
Net interest on net defined benefit pension plan asset (note 25)	**256**	9
	2,008	153

8 Finance expense

	2022 £000	2021 £000
Interest on bank loans and overdrafts	**6,046**	5,886
Amortisation of capitalised transaction costs	**300**	300
Interest on amounts payable to a related parties	**566**	1,430
Interest costs in respect of lease liabilities	**1,859**	1,872
	8,771	9,488
Less: interest capitalised (note 10)	**(76)**	(151)
	8,695	9,337

9 Taxation

Recognised in the profit and loss account

	2022 £000	2021 £000
Current tax expense		
Current period	**5,281**	8,396
Adjustments in respect of prior periods	**137**	(132)
Current tax charge	**5,418**	8,264
Deferred tax expense (note 14)		
Origination and reversal of temporary differences	**9,094**	2,456
Impact of increase in tax rate	**2,878**	8,155
Adjustment in respect of previous years	**799**	(115)
Deferred tax charge	**12,771**	10,496
Total tax charge	**18,189**	18,760

Notes *(continued)*

9 Taxation *(continued)*

Recognised in other comprehensive income

	2022 £000	2021 £000
Deferred tax expense (note 14)		
Remeasurement of defined benefit liability/asset	**(697)**	2,087
Effective portion of changes in fair value of cash flow hedges	**3,510**	1,991
Impact of increase in tax rate	**(114)**	840
Total tax expense recognised in other comprehensive income	**2,699**	4,918

Reconciliation of effective tax rate

	2022 £000	2021 £000
Profit for the year	**62,689**	37,423
Total tax charge	**18,189**	18,760
Profit excluding taxation	**80,878**	56,183
Tax using the UK corporation tax rate of 19% *(2021: 19%)*	**15,367**	10,675
Non-deductible expenses - impairment of goodwill	**173**	-
Other non-deductible expenses	**1,090**	177
Enhanced deduction for capital allowances	**(2,255)**	-
Increase in tax rate on deferred tax balances	**2,878**	8,155
Under provided in prior years	**936**	(247)
Total tax charge	**18,189**	18,760

Factors that may affect future current and total tax charges

The UK corporation tax rate will increase from 19% to 25% (effective from 1 April 2023). As this rate change was substantively enacted at the balance sheet date, the deferred tax liability as at 31 December 2022 has been calculated reflecting this change.

Notes *(continued)*

10 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 1 January 2021	14,584	50,977	628,091	1,203	2,103	15,528	712,486
Additions	-	1,701	3,495	-	200	27,278	32,674
Disposals	(53)	(233)	(2,610)	-	-	-	(2,896)
Reclassification	-	-	11,372	-	33	(11,405)	-
Transferred to intangible assets	-	-	-	-	-	(328)	(328)
Write-off	-	-	(448)	-	-	-	(448)
Balance at 31 December 2021	14,531	52,445	639,900	1,203	2,336	31,073	741,488
Balance at 1 January 2022	14,531	52,445	639,900	1,203	2,336	31,073	741,488
Additions	-	1,582	655	-	90	68,878	71,205
Disposals	-	-	-	(17)	-	-	(17)
Reclassification	108	-	45,823	-	301	(46,232)	-
Balance at 31 December 2022	14,639	54,027	686,378	1,186	2,727	53,719	812,676
Depreciation and impairment							
Balance at 1 January 2021	4,359	4,857	353,729	931	1,537	-	365,413
Depreciation charge for the period	35	2,556	28,745	148	354	-	31,838
Disposals	-	(22)	(1,532)	-	-	-	(1,554)
Write-off	-	-	(148)	-	-	-	(148)
Balance at 31 December 2021	4,394	7,391	380,794	1,079	1,891	-	395,549
Balance at 1 January 2022	4,394	7,391	380,794	1,079	1,891	-	395,549
Depreciation charge for the period	57	2,630	27,741	95	353	-	30,876
Disposals	-	-	-	(17)	-	-	(17)
Balance at 31 December 2022	4,451	10,021	408,535	1,157	2,244	-	426,408
Net book value							
At 1 January 2021	10,225	46,120	274,362	272	566	15,528	347,073
At 31 December 2021	10,137	45,054	259,106	124	445	31,073	345,939
At 31 December 2022	**10,188**	**44,006**	**277,843**	**29**	**483**	**53,719**	**386,268**

Notes *(continued)*

10 Property, plant and equipment *(continued)*

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

	2022	2021
	£000	£000
Property, plant and equipment owned	**342,852**	301,458
Right-of-use assets, except for investment property	**43,416**	44,481
	386,268	345,939

Right-of-use assets

	Leasehold land and buildings	**Motor vehicles**	**Total**
	£000	**£000**	**£000**
Balance at 1 January 2021	45,345	272	45,617
Additions	1,701	-	1,701
Disposals	(233)	-	(233)
Depreciation on disposals	22	-	22
Depreciation charge for the year	(2,478)	(148)	(2,626)
Balance at 31 December 2021	44,357	124	44,481
Balance at 1 January 2022	**44,357**	**124**	**44,481**
Additions	**1,582**	**-**	**1,582**
Disposals	**-**	**(17)**	**(17)**
Depreciation on disposals	**-**	**17**	**17**
Depreciation charge for the year	**(2,552)**	**(95)**	**(2,647)**
Balance at 31 December 2022	**43,387**	**29**	**43,416**

Depreciation and impairment

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

	2022	2021
	£000	£000
Cost of sales – depreciation	**30,380**	31,323
Administrative expenses – depreciation	**414**	370
Total recognised in profit and loss account	**30,794**	31,693
Depreciation on right-of-use assets capitalised within assets under construction	**82**	145
Total depreciation and impairment for the year	**30,876**	31,838

Impairment loss

Following an impairment review undertaken by the directors during the year, no impairment losses were recognised in the profit and loss *(2021: £nil)*.

Freehold land and buildings

Included within freehold land and buildings is freehold land of £8,366,000 *(2021: £8,366,000)* which is not depreciated.

Notes *(continued)*

10 Property, plant and equipment *(continued)*

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 £76,000 *(2021: £151,000)* and £23,000 *(2021: £190,000)* respectively were capitalised as property, plant and equipment under construction.

11 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 1 January 2021	50,621	72,200	2,700	2,400	499	11,787	1,323	141,530
Transferred from tangible fixed assets	-	-	-	-	-	-	328	328
Additions	-	-	-	-	-	41,951	489	42,440
Disposals	-	-	-	-	-	(11,790)	-	(11,790)
Balance at 31 December 2021	50,621	72,200	2,700	2,400	499	41,948	2,140	172,508
Balance at 1 January 2022	50,621	72,200	2,700	2,400	499	41,948	2,140	172,508
Additions	-	-	-	-	-	79,336	1	79,337
Disposals	-	-	-	-	-	(72,845)	-	(72,845)
Balance at 31 December 2022	50,621	72,200	2,700	2,400	499	48,439	2,141	179,000
Amortisation and impairment								
Balance at 1 January 2021	50,621	48,469	1,649	2,400	246	-	183	103,568
Amortisation for the year	-	2,719	245	-	18	-	314	3,296
Balance at 31 December 2021	50,621	51,188	1,894	2,400	264	-	497	106,864
Balance at 1 January 2022	50,621	51,188	1,894	2,400	264	-	497	106,864
Amortisation for the year	-	2,268	245	-	18	-	425	2,956
Balance at 31 December 2022	50,621	53,456	2,139	2,400	282	-	922	109,820
Net book value								
At 1 January 2021	-	23,731	1,051	-	253	11,787	1,140	37,962
At 31 December 2021	-	21,012	806	-	235	41,948	1,643	65,644
At 31 December 2022	**-**	**18,744**	**561**	**-**	**217**	**48,439**	**1,219**	**69,180**

Notes *(continued)*

11 Intangible assets *(continued)*

Amortisation

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

	2022	2021
	£000	£000
Cost of sales	**2,727**	3,067
Administrative expenses	**229**	229
	2,956	3,296

Impairment testing

Impairment reviews are required to be performed where an indicator of impairment or reversal of past 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.

The structure of the UK power market is undergoing unprecedented change in the drive towards full de-carbonisation. This presents opportunity for assets providing flexibility, but it also presents risk in the form of market reform and regulation. The volatility in the UK's wind and solar generation, as well as the uncertainties in the energy sector, resulted in a strong performance by UKPR's flexible generation assets during the year.

Management consider the above to represent an indicator of a reversal of past impairment or impairment.

As the above indicator relates to all CGU's and the goodwill allocated at Group was fully impaired in 2020, an impairment test was performed at the individual CGU level.

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 did not resulted in an overall reversal of past impairment or further impairment.

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

	SQ	**CM14**	**CM15**	**CM16**	**Group of CGU's**
	£m	**£m**	**£m**	**£m**	**£m**
Carrying values					
Capacity market intangible assets	**1.6**	**17.9**	**-**	**-**	**19.5**
Other assets	**55.6**	**82.1**	**43.4**	**72.3**	**253.4**
	57.2	**100.0**	**43.4**	**72.3**	**272.9**
Value in use	**57.2**	**100.0**	**42.8**	**72.9**	**272.9**
Gross (impairment)/reversal of past impairment	**-**	**-**	**(0.6)**	**0.6**	**-**
Taxation	**-**	**-**	**0.2**	**(0.2)**	**-**
Net (impairment)/reversal of past impairment	**-**	**-**	**(0.4)**	**0.4**	**-**

Notes *(continued)*

11 Intangible assets *(continued)*

The gross impairment charge/reversal arsing has been allocated as follows:

	SQ £m	CM14 £m	CM15 £m	CM16 £m	Group of CGU's £m
Capacity market intangible assets	-	-	-	-	-
Tangible fixed assets	-	-	(0.6)	0.6	-
	-	-	(0.6)	0.6	-

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 the return earned from CGU assets operating within the Balancing market, Fast Reserve market, and, for the CM16 CGU, 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 15.00%, 12.19%, 11.19%, 13.45% and 12.96% 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

The value in use calculation is sensitive to a change in discount rate used. An increase in the pre-tax discount rates to 16.27%, 13.28%, 12.24%, 14.67% and 14.11% (or a 1% increase in the post-tax discount rate which represent the higher end estimated discount rate) for the SQ, CM14, CM15, CM16 and group of CGU's respectively would result in an overall net impairments charge of £9.1 million.

12 Investment property

	2022 £000	2021 £000
Cost and net book value at beginning of the year	**3,726**	3,820
Disposals	**-**	(94)
Aggregate depreciation thereon	**-**	-
Cost and net book value at end of the year	**3,726**	3,726
On open market basis:		
Net book value	**11,628**	11,628

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 2022. 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)*

13 Equity-accounted investees

	2022	2021
	£000	£000
Interest in joint venture	**289**	-

During the year the Group subscribed for a 25% equity interest in Whitetail Clean Energy Limited ("WCE") for a cash consideration of £1,994,000. Goodwill arising on the acquisition amounted to £910,000. The key project being pursued by WCE has many technical, commercial and regulatory milestones to achieve relating to the project before reaching a Final Investment Decision with respect to this innovative technology. Given the current inherent uncertainties, the goodwill arising on the acquisition has been written off in full and is included within administrative expenses in the profit and loss account.

Whitetail Clean Energy Limited ("WCE") is a joint venture in which the Group has joint control and a 25% ownership interest. WCE is engaged in exploring the development of the UK's first Net Zero emissions NET Power station. WCE is not publicly listed, and its registered office is Hill House, 1 Little New Street, London, England, EC4A 3TR.

WCE is structured as a separate vehicle and the Group has a residual interest in the net assets of WCE. Accordingly, the Group has classified its interest in WCE as a joint venture.

The following tables summarise the financial information of WCE, for the period from acquisition to 31 December 2022, as included in its their own financial statements, adjusted for any differences in accounting policies.

	2022	2021
Percentage ownership interest	**25%**	0%
	£000	£000
Non-current assets	**-**	-
Current assets (including cash and cash equivalents of £1,687,000)	**1,687**	-
Non-current liabilities	**-**	-
Current liabilities (including current financial liabilities other than trade and other payables and provisions of £nil)	**(529)**	-
Net assets (100%)	**1,158**	-
Group's share of net assets (25%)	**289**	-
Goodwill – net of impairment charge of £910,000	**-**	-
Carrying amount of interest in joint venture	**289**	-
Revenue	**-**	-
Administrative expenses	**(3,180)**	-
Income tax expense	**-**	-
Loss and total comprehensive income (100%)	**(3,180)**	-
Group's share of loss and total comprehensive income (25%)	**(795)**	-
Dividends received by the Group	**-**	-

Notes *(continued)*

14 Deferred tax assets and liabilities

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	2022		2021	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Property, plant and equipment	**-**	**41,304**	-	28,669
Intangible assets	**-**	**4,850**	-	5,331
Employee benefits	**-**	**2,614**	-	3,092
Derivative financial instrument	**-**	**3,919**	-	409
Provisions	**(25)**	**-**	(65)	-
Other	**-**	**414**	-	170
Tax (assets)/liabilities	**(25)**	**53,101**	(65)	37,671
Net of tax liabilities/(assets)	**25**	**(25)**	65	(65)
Net tax (assets)/liabilities	**-**	**53,076**	-	37,606

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 2022 £000**
Property, plant and equipment	28,669	12,635	-	**41,304**
Intangible assets	5,331	(481)	-	**4,850**
Employee benefits	3,092	333	(811)	**2,614**
Derivative financial instrument	409	-	3,510	**3,919**
Provisions	(65)	40	-	**(25)**
Other	170	244	-	**414**
	37,606	12,771	2,699	**53,076**

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 2021 £000
Property, plant and equipment	20,219	8,450	-	28,669
Intangible assets	4,714	617	-	5,331
Employee benefits	24	239	2,829	3,092
Derivative financial instrument	(1,680)	-	2,089	409
Provisions	(50)	(15)	-	(65)
Tax value of loss carry-forwards utilised	(1,206)	1,206	-	-
Other	171	(1)	-	170
	22,192	10,496	4,918	37,606

Notes *(continued)*

15 Inventories

	2022	2021
	£000	£000
Raw materials and consumables	**9,088**	8,275

Raw materials and consumables recognised as cost of sales in the year amounted to £16,252,000 *(2021: £14,918,000)*.

Inventories are stated after an obsolescence provision of £4,350,000 *(2021: £3,954,000)*.

16 Contract assets

	2022	2021
	£000	£000
Right to consideration in respect of renewable obligation certificates	**11,225**	9,663

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

	2022	2021
	£000	£000
Trade receivables	**80,502**	56,462
Unbilled trade receivables	**22,143**	26,645
Amount due from related parties – Non-trade	**864**	631
Other receivables	**11,450**	31,306
VAT receivable	**1,500**	-
Prepayments	**4,263**	3,383
	120,722	118,427

Trade and other receivables are stated after provision for doubtful debts of £102,000 *(2021: £85,000)*.

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

Other receivables include cash collateral deposits of £1,038,000 *(2021: £19,004,000)* placed with counterparties to cover the group's exposure on its short-term power and gas purchases. The deposits are due within one year and will be recovered once these trading transactions have been settled.

18 Cash and cash equivalents

	2022	2021
	£000	£000
Cash at bank	**104,063**	74,752
Cash held on deposit	**111,341**	65,409
Cash and cash equivalents per cash flow statement	**215,404**	140,161

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 24.

	2022	2021
	£000	£000
Non-current liabilities		
Unsecured bank loans	**299,575**	299,275
Unsecured loan notes owed to immediate parent company	**-**	-
Unsecured loan owed to a related party	**29,500**	29,500
Lease liabilities - note 20	**44,180**	44,517
	373,255	373,292
Current liabilities		
Current portion of lease liabilities - note 20	**1,156**	1,396

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 SONIA plus a credit spread adjustment and 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 £425,000 *(2021: £725,000)* have been offset against the carrying value of the loan at the year end.

Due to the interest rate benchmark reform, both the £300,000,000 term loan facility and the interest rate swaps (see note 24) were modified in 2021 on the same basis. The contractual benchmark rate of 3M GBP LIBOR was replaced by 3M Compounded Daily SONIA plus a credit adjustment spread.

The non-current unsecured loan owed to a related party of £29,500,000 bears interest at Bank of England base rate plus 1% per annum. The loan notes are repayable on the fifth anniversary of the agreement, which is dated 27 April 2021.

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:

	2022	2021
	£000	£000
Less than one year	**-**	-
Between one and five years	**329,500**	329,500
More than five years	**-**	-
	329,500	329,500

Notes *(continued)*

19 Loans and borrowings *(continued)*

Changes in liabilities from financing activities

	2022		2021	
	Loans and borrowings £000	**Lease liabilities £000**	Loans and borrowings £000	Lease liabilities £000
Balance at beginning of year	**329,500**	**45,913**	379,500	46,311
Changes from financing cash flows				
Repayment of borrowings	**-**	**-**	(50,000)	-
Payment of lease liabilities	**-**	**(2,159)**	-	(1,888)
Total changes from financing cash flows	**-**	**(2,159)**	(50,000)	(1,888)
Other changes				
New leases	**-**	**1,582**	-	1,701
Disposal of leases	**-**	**-**	-	(211)
Changes in outstanding interest payable	**(487)**	**-**	(362)	-
Capitalised borrowing costs	**-**	**76**	-	151
Interest expense	**6,912**	**1,783**	7,616	1,721
Interest paid	**(6,425)**	**(1,859)**	(7,254)	(1,872)
Total other changes	**-**	**1,582**	-	1,490
Balance at end of year	**329,500**	**45,336**	329,500	45,913

20 Leases

Leases as a lessee

Lease liabilities included in loans and borrowings are as follow:

	2022 £000	2021 £000
Current	**1,156**	1,396
Non-current	**44,180**	44,517
	45,336	45,913

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 2023 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.

Notes *(continued)*

20 Leases *(continued)*

Information about leases for which the Group is a lessee is presented below. Information about the right-of-use assets in included in note 10.

	2022 £000	2021 £000
Balance at beginning of the year	**45,913**	46,311
New leases	**1,582**	1,701
Disposal of leases	**-**	(211)
Interest on lease liabilities – recognised in profit or loss	**1,783**	1,721
Interest on lease liabilities capitalised	**76**	151
Lease payments – recognised in cash flow statement	**(2,159)**	(1,888)
Interest payments – recognised in cash flow statement	**(1,859)**	(1,872)
Balance at end of the year	**45,336**	45,913

Maturity analysis – contractual undiscounted cash flow

	2022 £000	2021 £000
Within one year	**3,677**	3,704
Between one and five years	**14,316**	13,911
After five years	**46,229**	48,346
	64,222	65,961

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 2022 was £1,526,000 *(2021: £1,236,000)*.

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

	2022 £000	2021 £000
Within one year	**739**	751
Between one and five years	**1,865**	2,057
After five years	**1,315**	1,541
	3,919	4,349

Notes *(continued)*

21 Trade and other payables

	2022	2021
	£000	£000
Current		
Trade payables	**6,649**	5,247
Other trade payables and deferred income	**121,298**	99,843
Non-trade payables and accrued expenses	**110,419**	75,762
Non-trade payables to related parties	**1,666**	1,468
VAT payable	**769**	3,186
Interest payable on bank loans	**411**	412
Interest payable to related parties	**242**	54
	241,454	185,972

Included within trade and other payables is £nil *(2021: £nil)* expected to be settled in more than 12 months.

22 Provisions

	2022	2021
	£000	£000
Balance at 1 January	**15,796**	1,960
Provision made during the year	**1,963**	15,193
Provisions reversed during the year	**(302)**	-
Provision used during the year	**(3,447)**	(1,357)
Balance at 31 December	**14,010**	15,796
Non-current	**4,275**	10,221
Current	**9,735**	5,575
Balance at 31 December	**14,010**	15,796

Provisions include £12,546,000 *(2021: £13,667,000)* in relation to certain legacy site remediation obligations. £8,271,000 *(2021: £3,446,000)* of this provision is expected to be utilised within 1 year with the remaining £4,275,000 *(2021: £10,221,000)* between 1-2 years. This provision has been determined with reference to external quotes from suppliers as well as managements best estimate of the costs to complete the remediation works. Provisions also include £1,464,000 *(2021: £1,500,000)* in respect of certain environmental obligations and £nil *(2021: £629,000)* in respect of restructuring costs, which are expected to be utilised within 1 year.

23 Capital and reserves

Share capital

	No. of shares 2022	No. of shares 2021
On issue at 1 January and 31 December – fully paid	**170,956,642**	170,956,642

Notes *(continued)*

23 Capital and reserves *(continued)*

	2022	2021
	£000	£000
Allotted, called up and fully paid		
170,956,642 *(2021: 170,956,642)* ordinary shares of £1 each	**170,956**	170,956
Shares classified in shareholders' funds	**170,956**	170,956

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 *(2021: £nil)*.

24 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)*

24 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.

	2022		2021	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Loans and receivables				
Cash and cash equivalents	**215,404**	**215,404**	140,161	140,161
Trade receivables	**102,645**	**102,645**	83,107	83,107
Other receivables	**12,314**	**12,314**	31,937	31,937
	330,363	**330,363**	255,205	255,205
Financial assets measured as fair value designated as a hedge				
Derivative financial assets – Interest rate swaps used for hedging	**15,677**	**15,677**	1,638	1,638
Total financial assets	**346,040**	**346,040**	256,843	256,843
Financial liabilities measured at amortised cost				
Trade and other payables	**233,228**	**233,228**	177,502	177,502
Interest-bearing loans	**329,075**	**329,500**	328,775	329,500
	562,303	**562,728**	506,277	507,002
Total financial liabilities	**562,303**	**562,728**	506,277	507,002

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)*

24 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, £3,981,000 *(2021: £4,444,000)* of the trade receivables balances were 1-30 days past due and £nil *(2021: £38,000)* were more than 30 days past due. An impairment allowance of £102,000 *(2021: £85,000)* 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 2022 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 2022	**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	**233,228**	**233,228**	**233,228**	**-**	**-**
Lease liabilities	**45,336**	**64,222**	**3,677**	**14,316**	**46,229**
Other interest-bearing loans and borrowings	**329,500**	**340,847**	**6,717**	**334,130**	**-**
	608,064	**638,297**	**243,622**	**348,446**	**46,229**

31 December 2021	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	177,502	177,502	177,502	-	-
Lease liabilities	45,913	65,961	3,704	13,911	48,346
Other interest-bearing loans and borrowings	329,500	345,964	6,442	339,522	-
	552,915	589,427	187,648	353,433	48,346

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)*

24 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 non-current unsecured loan owed to a related party of £29,500,000 *(2021: £29,500,000)* bears interest at Bank of England base rate plus 1% per annum. The Group is therefore exposed to interest rate fluctuations on its external unsecured bank loans which bears interest at SONIA plus a credit spread adjustment and a margin of 1.05%.

In line with the Group's interest risk management policy and strategy noted above, the Group has selected the 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.

25 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 £2,313,000 *(2021: £1,786,000)*.

Contributions payable to The National Employment Savings Trust (NEST), a defined contribution workplace pension scheme, during the year amounted to £89,000 *(2021: £144,000)*.

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 2022. The scheme's assets are stated at their market values at 31 December 2022.

Employer contributions in relation to deficit contributions over the accounting period, amounted to £1,500,000.

Notes *(continued)*

25 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 2020. 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.

	2022	2021
	£000	£000
Defined benefit obligation	**(83,069)**	(128,539)
Plan assets	**93,527**	140,908
Net pension asset	**10,458**	12,369

Movements in net defined benefit liability/asset

	Defined benefit obligation		**Fair value of plan assets**		**Net defined benefit (liability)/asset**	
	2022	2021	**2022**	2021	**2022**	2021
	£000	£000	**£000**	£000	**£000**	£000
Balance at 1 January	**(128,539)**	(138,188)	**140,908**	138,312	**12,369**	124
Included in profit or loss						
Current service cost	**-**	-	**-**	-	**-**	-
Past service charge	**-**	-	**-**	-	**-**	-
Interest (cost)/income	**(2,443)**	(1,894)	**2,699**	1,903	**256**	9
	(2,443)	(1,894)	**2,699**	1,903	**256**	9
Included in OCI						
Remeasurements (loss)/gain:						
Actuarial (loss)/gain arising from						
- Changes in demographic assumptions	**609**	(2,863)	**-**	-	**609**	(2,863)
- Change in financial assumptions	**44,570**	6,620	**-**	-	**44,570**	6,620
- Experience adjustment	**(3,238)**	1,409	**-**	-	**(3,238)**	1,409
Return on plan assets excluding interest income	**-**	-	**(45,608)**	5,820	**(45,608)**	5,820
	41,941	5,166	**(45,608)**	5,820	**(3,667)**	10,986
Other						
Contributions paid by the employer	**-**	-	**1,500**	1,250	**1,500**	1,250
Benefits paid	**5,972**	6,377	**(5,972)**	(6,377)	**-**	-
	5,972	6,377	**(4,472)**	(5,127)	**1,500**	1,250
Balance at 31 December	**(83,069)**	(128,539)	**93,527**	140,908	**10,458**	12,369

Cumulative actuarial gains/(losses) reported in the statement of comprehensive income gains and losses are £5,343,000 gain *(2021: £9,010,000 gain)*.

Notes *(continued)*

25 Employee benefits *(continued)*

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

	2022 Fair value £000	2021 Fair value £000
Hedge funds	**16,169**	15,562
Equities	**-**	26,578
Government bonds	**45,010**	8,688
Corporate bonds	**-**	35,912
Gilts	**24,994**	53,673
Cash	**6,509**	-
Other	**845**	495
	93,527	140,908
Expected return on plan assets	**2,699**	1,903
Remeasurement gain on scheme assets	**(45,608)**	5,820
Actual return on plan assets	**(42,909)**	7,723

At 31 December 2022, 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:

	2022 %	2021 %
Discount rate	**4.80**	1.95
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	**2.80**	3.00
- benefits accrued post May 2006	**1.95**	2.15
RPI Inflation	**3.0**	3.1
CPI Inflation	**2.5**	2.2

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 20.9 years if they are male and for a further 23.9 years if they are female. For members currently aged 45 and who retire at age 65 the assumptions are that they will live on average for a further 22.2 years after retirement if they are male and for a further 25.4 years after retirement if they are female.

Sensitivity analysis

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

	2022 £000	2021 £000
Discount rate +1% p.a.	**(9,677)**	(18,471)
1% increase in the Inflation	**7,258**	15,204

In valuing the liabilities of the pension fund at 31 December 2022, 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 2022 would have increased by £2,600,000 *(2021: £5,731,000)* before deferred tax.

Notes *(continued)*

25 Employee benefits *(continued)*

Sensitivity analysis (continued)

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 2020 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 £1,500,000 in 2022, and expects to contribute £1,500,000, 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 2020") and Restricted Share Plan ("SCI RSP 2020") (collectively, the "2020 Share Plans") were approved and adopted by SCI shareholders at an Annual General Meeting held on 21 May 2020.

The 2020 Share Plans are intended to increase SCI's flexibility and effectiveness in its continuing efforts to reward, retain and motivate employees to achieve superior performance. The 2020 Share Plans will strengthen SCI Group's competitiveness in attracting and retaining talented key senior management and senior executives. The 2020 Share Plans aim to align the interests of participants and shareholders, to improve performance and achieve sustainable growth for the company.

The details of SCI Group's share-based remuneration arrangements are set out and disclosed in SCI's publicly available annual report.

The 2020 Share Plans are priced in Singapore dollars (S$).

Total expense recognised for share based payments during the year was £221,000 *(2021: £323,000)* and £86,000 *(2021: £71,000)* was recharged to the Group.

Other information regarding the Share Plans is as follows:

(a) Performance Share Plan

Details of the 2020 Performance Share Plans are set out and disclosed in SCI's publicly available annual report. 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**
2021	**395,700**	395,700
2022	**272,300**	-
	668,000	395,700

272,300 *(2021: 395,700)* performance shares were awarded during the year and nil performance shares lapsed during the year *(2021: nil)*. The total number of performance shares outstanding, including awards achieved but not released, as at end 2022, was 668,000 *(2021: 395,700)*.

The total expense recognised during the year in relation to this scheme was £141,000 *(2021: £131,000)*.

Notes *(continued)*

25 Employee benefits *(continued)*

(b) Restricted Share Plan

Details of the 2020 Restricted Share Plans are set out and disclosed in SCI's publicly available annual report.

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
2018	**-**	12,453
2019	**4,604**	31,670
2020	**26,023**	60,890
2021	**58,533**	-
	89,160	105,013

With the achievement of the performance targets for the performance period 2019 to 2021, a total of 89,889 *(2021: 77,654)* restricted shares were released during 2022 and 13,764 *(2021: nil)* restricted shares lapsed due to under-achievement of the performance targets. 87,800 *(2021: 93,065)* restricted shares were awarded during 2022.

The total number of restricted shares outstanding, including awards achieved but not released, as at end 2022, was 89,160 *(2021: 105,013)*.

The total expense recognised during the year in relation to this scheme was £80,000 *(2021: £192,000)*.

26 Related parties

Transactions with key management personnel

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

	2022 £000	2021 £000
Key management remuneration including social security costs	**2,954**	2,451
Company contributions to pension schemes	**157**	164
Share related awards	**219**	318
	3,330	2,933

Transactions with other related parties

During the year, interest payable to related parties on inter-company loans and borrowings totalled £566,000 *(2021: £1,430,000)*. Interest receivable on cash deposits with related parties was £1,085,000 *(2021: £5,000)* and management fees charged by parent undertaking was £1,471,000 *(2021: £829,000)*. The amount charged to Whitetail Clean Energy Limited, for the provision of services during the year, was £280,000 *(2021: £nil)*. At the end of the year £122,000 *(2021: £nil)* was owed by Whitetail Clean Energy Limited.

Sembcorp Utilities Pte Ltd holds a 40% interest in Merseyside Energy Recovery Limited, a joint venture entity.

Transactions with Merseyside Energy Recovery Limited during the year included sales of £1,471,000 *(2021: £988,000)* and purchases of £34,139,000 *(2021: £12,488,000)*. At the end of the year £1,888,000 *(2021: £1,132,000)* was owed to Merseyside Energy Recovery Limited.

During the year, Regen SW (a company in which a key management personnel of the Group during the year was a director) was paid £2,650 *(2021: £2,500)* by the Group in relation to an annual Electricity Storage Network membership fee. Amounts owed at the year end totalled £nil *(2021: £nil)*.

Notes *(continued)*

27 Commitments

Capital commitments to purchase property, plant and equipment at the end of the year, for which no provision has been made, total £91,317,000 *(2021: £29,582,000)*.

28 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 2022 amounted to £104,546,000 *(2021: £30,246,000)*.

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

The Group assesses whether there are any indications of impairment (or reversal of past impairment) of all non-financial assets at each reporting date. Intangible assets are tested for impairment 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 11.

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 25 for the disclosures of the defined benefit pension scheme.

Provisions

The Group has made a provision in relation to certain legacy site remediation obligations. This provision requires management' best estimate of the costs that will be incurred based on legislative and contractual requirements. As explained in note 22 this provision has been determined based on information available at the date of approving these financial statements with reference to external quotes from suppliers as well as managements best estimate of the costs to complete the remediation works. Given the magnitude of the project there is a possibility that the final costs may be materially different by +/- 25%.

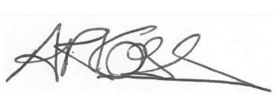
Taxation – Corporate interest restriction

The UK Government introduced the Corporate Interest Restriction rules in 2017 to implement Action 4 of the OECD's Base Erosion and Profit Shifting (BEPS) project. The rules determine the amount of interest that companies can deduct for UK corporation tax purposes. Considering the size and complexities of the overall Temasek group, the Group makes assumptions and estimates over the amount of interest claimed as a deduction based on discussions with HMRC.

Company Balance Sheet
at 31 December 2022

	Note	**2022**		2021	
		£000	**£000**	£000	£000
Fixed assets					
Investments	*3*		**181,427**		153,403
Current assets					
Debtors (including £202,614,000 *(2021: £122,550,000)* due after more than one year)	*4*	**202,673**		193,091	
Cash at bank, in hand and on deposit		**15,176**		8,437	
		217,849		201,528	
Creditors: amounts falling due within one year	*5*	**(653)**		(482)	
Net current assets			**217,196**		201,046
Total assets less current liabilities			**398,623**		354,449
Creditors: amounts falling due after more than one year	*6*		**(329,075)**		(328,775)
Provision for liabilities	*7*		**(3,919)**		(409)
Net assets			**65,629**		25,265
Capital and reserves					
Called up share capital	*9*		**170,956**		170,956
Hedging reserve			**11,758**		1,229
Profit and loss account			**(117,085)**		(146,920)
Shareholders' funds			**65,629**		25,265

These financial statements were approved by the board of directors on 28 March 2023 and were signed on its behalf by:



Andy Koss
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 1 January 2021	170,956	(7,161)	(148,312)	15,483
Total comprehensive income for the year				
Profit or loss	-	-	1,392	1,392
Other comprehensive income	-	8,390	-	8,390
Total comprehensive income for the year	-	8,390	1,392	9,782
Balance at 31 December 2021	170,956	1,229	(146,920)	25,265
Balance at 1 January 2022	170,956	1,229	(146,920)	25,265
Total comprehensive income for the year				
Profit or loss	-	-	29,835	29,835
Other comprehensive income	-	10,529	-	10,529
Total comprehensive income for the year	-	10,529	29,835	40,364
Balance at 31 December 2022	**170,956**	**11,758**	**(117,085)**	**65,629**

Notes
(forming part of the financial statements)

1 Accounting policies

Sembcorp Energy UK Limited (the "Company") is a private company, limited by shares, 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 UK-adopted international accounting standards ("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 11.

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

	2022	2021
	£000	£000
Directors' emoluments	**909**	503
Amounts receivable under long term incentive schemes	**219**	261
Company contribution to money purchase pension scheme	**-**	-

The aggregate of remuneration and amounts receivable under long term incentive schemes of the highest paid director was £1,128,000 *(2021: £764,000)*, and Company pension contributions of £nil *(2021: £nil)* were made to a money purchase scheme on his behalf.

	Number of directors	
	2022	2021
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	
	2022	2021
	£000	£000
Cost		
At beginning and end of year	**332,468**	332,468
Provision		
At beginning of year	**179,065**	179,065
Reversal of past impairments	**(28,024)**	-
At end of year	**151,041**	179,065
Net book value		
At 31 December	**181,427**	153,403

Impairment

Following a review undertaken by the directors during year, the impairment against the Company's investment in Repono Holdco 1 Limited was reversed by £28,024,000.

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

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
Whitetail Clean Energy Limited	United Kingdom	Ordinary	25%	Indirect
Repono Holdco 1 Limited	United Kingdom	Ordinary	100%	Direct
UK Power Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Capacity Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Energy Reserve Limited	United Kingdom	Ordinary	100%	Indirect
UK Utility Reserve 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
Stallingborough Properties Limited	United Kingdom	Ordinary	100%	Indirect
GB Developers 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 Whitetail Clean Energy Limited is Hill House, 1 Little New Street, London, England, EC4A 3TR. The registered office of all the other subsidiaries listed above is Radcliffe House, Blenheim Court, Warwick Road, Solihull, West Midlands, B91 2AA.

Notes *(continued)*

4 Debtors

	2022	2021
	£000	£000
Amounts due to related parties	**59**	4,517
Loans due from subsidiary undertakings	**186,937**	186,937
Derivative financial assets – interest rate swaps (note 8)	**15,677**	1,637
	202,673	193,091

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

Loans due from subsidiary undertakings include unsecured loan notes of £120,913,000, which bear interest at 7% per annum, and repayable on 31 May 2023 and an interest-free unsecured loan of £19,192,000 *(2021: £19,192,000)*, which is repayable on demand. The remaining balance of £46,832,000 *(2021: £46,832,000)* is unsecured, interest-free and repayable on demand. All loans due from subsidiary undertakings are not expected to be realised within 1 year.

5 Creditors: amounts falling due within one year

	2022	2021
	£000	£000
Interest payable on bank loans	**411**	411
Interest payable to related parties	**242**	54
Accruals	**-**	17
	653	482

6 Creditors: amounts falling due after more than one year

	2022	2021
	£000	£000
Unsecured bank loans	**299,575**	299,275
Unsecured loan owed to a related party	**29,500**	29,500
	329,075	328,775

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 SONIA plus a credit spread adjustment and 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 £425,000 *(2021: £725,000)* have been offset against the carrying value of the loan at the year end.

The non-current unsecured loan owed to a related party of £29,500,000 bears interest at Bank of England base rate plus 1% per annum. The loan notes are repayable on the fifth anniversary of the agreement, which is dated 27 April 2021.

Notes *(continued)*

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

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

	2022 **£000**	2021 £000
Less than one year	**-**	-
Between one and five years	**329,500**	329,500
More than five years	**-**	-
	329,500	329,500

7 Provision for liabilities

Recognised deferred tax assets and liabilities

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 2022 £000**
Derivative financial instrument	409	-	3,510	**3,919**
Liabilities	409	-	3,510	**3,919**

Movement in deferred tax during the prior period

	At beginning of year £000	Recognised in income £000	Recognised in other comprehensive income £000	At 31 December 2021 £000
Derivative financial instrument	(1,680)	-	2,089	409
(Assets)/liabilities	(1,680)	-	2,089	409

Notes *(continued)*

8 Derivative financial instruments

	2022		2021	
	Carrying amount £000	**Fair value £000**	Carrying amount £000	Fair value £000
Financial assets measured as fair value designated as a hedge				
Derivative financial assets – Interest rate swaps used for hedging	**15,677**	**15,677**	1,637	1,637

The Company selected the 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.

9 Called up share capital

	No. of shares 2022	No. of shares 2021
On issue at 1 January and 31 December – fully paid	**170,956,642**	170,956,642

	2022 £000	2021 £000
Allotted, called up and fully paid		
170,956,642 *(2021: 170,956,642)* ordinary shares of £1 each	**170,956**	170,956
Shares classified in shareholders' funds	**170,956**	170,956

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.

10 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.

Notes *(continued)*

11 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.

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 were:

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 a past impairment charge of £28,024,000, against the Company's investments in its subsidiaries, was reversed during the year.

Taxation – Corporate interest restriction

The UK Government introduced the Corporate Interest Restriction rules in 2017 to implement Action 4 of the OECD's Base Erosion and Profit Shifting (BEPS) project. The rules determine the amount of interest that companies can deduct for UK corporation tax purposes. Considering the size and complexities of the overall Temasek group, the Company makes assumptions and estimates over the amount of interest claimed as a deduction based on discussions with HMRC.