

Saltend Cogeneration Company Limited
Company Number: 03274929

Annual Report and Financial Statements

For the year ended 31 December 2016



Contents	Page
Officers and Professional Advisers	3
Strategic Report	4
Directors' Report	7
Directors' Responsibilities Statement	9
Independent Auditor's Report	10
Profit and Loss Account	12
Balance Sheet	13
Statement of Changes in Equity	14
Notes to the financial statements	15

Directors

Mr S Pinnell
Mr D Alcock
Mr P Evans (resigned 13 April 2016)
Mr R Okaniwa
Mr W Broos (appointed 13 April 2016)

Secretary

Ms H Berger (retired 01 January 2016)
Mrs S Gregory (appointed 01 January 2016)

Auditor

Deloitte LLP
Statutory Auditor
2 New Street Square
London
EC4A 3BZ

Registered Office

Level 20
25 Canada Square
London
E14 5LQ

Strategic report

The Directors present their Strategic report for the Company for the year ended 31 December 2016.

Principal activity

The principal activity of the Company is the operation of a combined cycle gas turbine ("CCGT") power station. The plant has been in full operation since November 2000.

Business review

The accompanying financial statements have been prepared in accordance with Financial Reporting Standard 101-Reduced Disclosure Framework (FRS 101) for all periods presented. The Company has taken advantage of the disclosure exemptions allowed under this standard. The Company's parent undertaking, IPM Holdings (UK) Limited, was notified of and did not object to the use of the EU-adopted IFRS disclosure exemptions.

The key performance indicators for the company are commercial availability, power generated and operating profit.

Weather adjusted electricity demand continued its weak trend in 2016 declining slightly beyond previous years. However, gas fired generation increased substantially as a result of reductions in coal capacity and lower renewable generation caused by lower wind speeds, less rainfall and fewer sun hours. Gas fired generation increased from 2015 by 39%.

2016 saw a significant reduction in coal fired generation with record low levels driven by the closure of a number of sites and conversions to biomass. Plants such as Saltend continued to reap most benefit from positive spark spreads (Net revenue made from sales of power after accounting for gas and carbon usage) during market peaks and periods of low renewable generation. Furthermore, production favours supply from gas partly due to the carbon price per GWh being higher for coal fired stations.

Excluding the impairment taken in 2015 and the cost of the insurance event, operating profit improved by £32,958,000. This improvement in operational financial performance was due mainly to the change in the market generation mix as coal fired stations closed down creating more need for gas fired stations to satisfy demand.

Net liabilities have further decreased from 2015: (£106,967,000) to 2016: (£110,515,000) due to the loss for the year (£5,266,000). Despite an improvement in operating profit, interest payable and the change in fair value of derivative instruments resulted in the company reporting an overall loss before taxation.

The plant continues to perform well operationally and suffered no major incidents within the year. A planned maintenance outage went ahead on Unit 1 during the summer period with no issues and unplanned maintenance was at a low level.

Due to the increased generation from renewable sources, flexibility continues to be of great importance to take advantage of market fluctuations. As a result of the change in generation demand patterns, the Long Term Service Agreement with Mitsubishi remains key to delivering a revised maintenance schedule which better allows the plant to operate more flexibly. The revised agreement was negotiated in 2015 and extends out to 2023.

Commercial availability continues to be of importance and during 2016 the plant achieved an average commercial availability of 93.18% (2015: 76.9%). This was a major improvement on last year which was impacted heavily as a result of a major incident which forced the second unit out of operation.

Strategic report (continued)

Business Review (continued)

During the year the Company generated 7.4 TWh (2015: 5.4 TWh). The unplanned outage factor was 1.07% supporting the high level of availability within the year mentioned above.

Results and dividends

The results of the Company are as follows:

	31 December 2016 £'000	31 December 2015 £'000
Profit/(loss) for the financial year	(3,549)	(124,307)

The results of the Company are set out in the Profit and loss account on page 13 and show a loss on ordinary activities before taxation of £4,497,000 (2015: loss of £127,443,000) and a loss after taxation of £3,549,000 (2015: loss of £124,307,000).

The net liabilities of the Company at the end of 2016 were £110,515,000 (2015: net liabilities of £106,966,000). The year on year movement on net assets was due to the loss for the year.

The Directors do not recommend the payment of a dividend for the year (2015: nil).

Principal risks and uncertainties

The principle risks and uncertainties facing the Company are broadly as follows:

Going concern risk

The Company is in a net liability position and is therefore exposed to going concern risk. This risk is mitigated through support of the wider group.

Currency risk

The Company operates within the Euro denominated European Emissions Trading Scheme, and is therefore exposed to currency and price movements on such purchasing.

Interest rate risk

Following refinancing of the business during 2013, the Company is now principally financed by floating rate group loans and fixed rate loans and guarantees from its ultimate parents for providing collateral. The Company also manages its daily cash positions by drawing from short term cash reserves from within the UK group. The Directors envisage that the Company will require a net cash drawdown from these reserves in order to fund future loan repayments and day to day operating costs due to the difficult market conditions that the Company trades in.

Market risk

Competitive pressure in the UK is a continuing risk for the Company, with the continuing market volatility which could impact future returns. To manage this risk, the Company strives to provide value-added products to its customers and through the maintenance of strong relationships with suppliers.

Strategic report (continued)

Market risk (continued)

The Company's business is affected by fluctuations in the price of key raw materials, although where practical, purchasing policies, contracts and the use of derivative financial instruments seek to mitigate such risks.

Events after the end of the reporting period

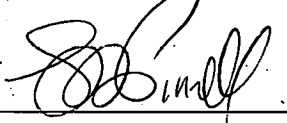
As part of the group strategic plan, the Company is now under offer for sale.

The directors propose that no dividend be paid (2015 £nil).

Future developments

The future objective of the business is to maximise the returns generated from the assets. The Company has no significant future developments to report.

By order of the Board

A handwritten signature in black ink, appearing to read 'S Pinnell', written over a horizontal line.

Mr S Pinnell

Director

28 July 2017

Directors' report

The Directors present their report and the Company's audited financial statements for the year ended 31 December 2015.

The following information has been disclosed in the Strategic report:

- Principal activities
- Business review and future prospects
- Principal risks and uncertainties
- Employees
- Future Developments

Directors

The Directors of the Company who served during the year ended 31 December 2016 and subsequently were:

Mr D Alcock
Mr S Pinnell
Mr P Evans (retired 13 April 2016)
Mr R Okaniwa
Mr W Broos (appointed 13 April 2016)

The company secretaries who held office during the year were Ms H Berger (retired 1 Jan 2016) and Mrs S Gregory (appointed 1 Jan 2016).

Directors' and officers' liability insurance

The Company has made qualifying third party indemnity provisions for the benefit of its Directors, which were made during the year and remain in force at the date of this report, to indemnify them against certain liabilities which they may incur in their capacity as Directors or officers of the Company, including liabilities in respect of which the Company is itself unable to provide an indemnity by virtue of Section 232 of the Companies Act 2006.

Charitable donations

The Company collected or made donations to local charities during the year totalling £3,992 (2015: £5,745). The use of these contributions are at the discretion of the charity.

Political donations

The Company did not make any political donations during the year (2015: £nil).

Environmental policy

The Company is committed to reducing its impact on the environment. As part of this commitment the Company actively promotes and encourages energy efficiency and recycling wherever possible.

Financial instruments

The Company finances its activities with a combination loans from its parent company and minority interest, cash and short term deposits. Other financial assets and liabilities, such as trade debtors and trade creditors, arise directly from the Company's operating activities. The Company also enters into derivative transactions, including future and forward contracts to sell power or gas, oil swaps and contracts to buy carbon and gas. The purpose of which is to manage the commodity price risk associated with these items.

Directors' report (continued)

Matters included in the Strategic Report

In accordance with s414(C) (11) of the Companies Act, included in the Strategic Report is information relating to the events occurring in the period and future developments which would otherwise be required by Schedule 7 of the 'large and medium sized companies and groups (accounts and reports) regulation 2008' to be contained in a Director's Report.

Going concern

The Company's business activities, together with the factors likely to affect its future development, its financial position, financial risk management objectives, details of its financial instruments and derivative activities, and its exposure to liquidity, price and credit risk are described in the Strategic report and the Directors' report.

The Directors have considered the going concern basis and concluded that it is appropriate to continue to adopt the going concern basis in preparing the Annual Report and financial statements. In performing this assessment the Directors have reviewed the Company's cash flow forecasts for the next 12 months from the date of the approval of the financial statements and they have a reasonable expectation that the Company, with the ongoing financial and other support from IPM Holdings (UK) Limited, has sufficient resources to continue in operational existence for the foreseeable future.

Auditor

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

Directors' statement as to disclosure of information to the auditor

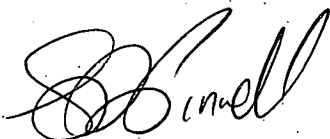
The Directors who were members of the board at the time of approving the Directors' report are listed above.

Each of the persons who is a Director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

By order of the Board,



Mr S Pinnell

Director

28 July 2017

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council. Under Company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable FRS 101 Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALTEÑD COGENERATION COMPANY LIMITED

We have audited the financial statements of Saltend Cogeneration Company Limited for the year ended 31 December 2016 which comprise the Profit and Loss Account, the Statement of Comprehensive Income, the Balance Sheet, the Statement of Changes in Equity, and the related notes 1 to 25. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

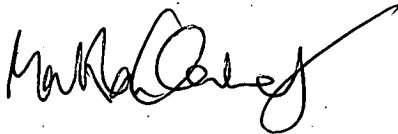
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

**INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SALTEND COGENERATION
COMPANY LIMITED (continued)**

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Makhan Chahal (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, UK

31st July 2017

Profit and loss account
for the year ended 31 December 2016

		2016	2015
	Note	£'000	£'000
Turnover	3	331,307	290,303
Cost of sales		(280,878)	(277,006)
		50,429	13,297
Gross profit			
Asset impairment	5	-	(102,610)
Insurance event	5	-	(1,773)
Administrative expenses (after exceptional items)	4	(39,686)	(35,512)
		10,743	(126,598)
Operating (loss)/profit	4		
Other gains and losses	10	(9,073)	7,725
Interest payable and similar charges	9	(6,167)	(8,570)
		(4,497)	(127,443)
Loss on ordinary activities before taxation			
Tax credit on loss on ordinary activities	11	949	3,136
		(3,549)	(124,307)
Loss for the financial year			

All realised profits and losses arise as a result of continuing operations.

There was no other comprehensive income attributable to the shareholders of the Company other than the loss for the financial year ended 31 December 2016 of (£3,549,000) (2015: (£124,307,000)).

The notes on pages 15 to 35 form an integral part of these financial statements.

Balance sheet

at 31 December 2016

	Note	2016 £'000	2015 £'000
Non-current assets			
Tangible fixed assets	13	65,362	70,516
Derivative financial instruments	20	11,098	6,170
		<u>76,460</u>	<u>76,686</u>
Current assets			
Inventories	14	3,950	4,888
Debtors			
- due within one year	15	127,757	92,656
Corporation tax asset		-	1,317
Deferred tax asset	19	-	-
Derivative financial instruments	20	33,838	30,671
Cash at bank and in hand		-	165
		<u>165,545</u>	<u>129,697</u>
Total current assets			
		<u>165,545</u>	<u>129,697</u>
Total assets		<u>242,005</u>	<u>206,383</u>
Current liabilities			
Creditors: amounts falling due within one year	16	(177,861)	(118,848)
Derivative financial instruments	20	(45,018)	(31,212)
		<u>(57,334)</u>	<u>(20,363)</u>
Net current assets			
		<u>(57,334)</u>	<u>(20,363)</u>
Total assets less current liabilities		<u>19,126</u>	<u>56,323</u>
Creditors: amounts falling due after more than one year	17	(126,655)	(160,543)
Provisions for liabilities and charges	18	(2,986)	(2,747)
		<u>(110,515)</u>	<u>(106,967)</u>
Net (liabilities)/assets		<u>(110,515)</u>	<u>(106,967)</u>
Capital and reserves			
Called up share capital	21	23,786	23,786
Share premium account			
Special capital reserve		12,000	12,000
Retained earnings		(146,301)	(142,753)
		<u>(110,515)</u>	<u>(106,967)</u>
EQUITY SHAREHOLDERS' FUNDS		<u>(110,515)</u>	<u>(106,967)</u>

The notes on pages 15 to 35 form an integral part of these financial statements.

The financial statements of Saltend Cogeneration Company Limited, registered number 03274929, were approved and authorised for issue by the Board of Directors on 28 July 2017 and signed on its behalf by:



Simon Pinnell
Director

Statement of changes in equity

for the year ended 31 December 2016 and 31 December 2015

	Share Capital £'000	Special Capital Reserve £'000	Retained earning £'000	Total equity £'000
At 1 January 2015	23,786	12,000	(18,446)	17,340
Profit for the year	-	-	(124,307)	(124,307)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>				
Dividends	-	-	-	-
At 31 December 2015	23,786	12,000	(142,753)	(106,967)
At 1 January 2016	23,786	12,000	(142,753)	(106,967)
Profit for the year	-	-	(5,266)	(5,266)
Other comprehensive income	-	-	-	-
Total comprehensive income for the year	-	-	-	-
<i>Transactions with owners in their capacity as owners:</i>				
Dividends	-	-	-	-
At 31 December 2016	23,786	12,000	(148,019)	(112,233)

The notes on pages 15 to 35 form an integral part of these financial statements.

Notes to the Financial Statements

for the year ended 31 December 2016

1. Authorisation of financial statements and statement of compliance with FRS 101

Saltend Cogeneration Company Limited is a company incorporated in the United Kingdom under the Companies Act. The Company is a private Company limited by shares and is registered in England and Wales. The address of the registered office is given on page 2. The nature of the Company's operations and its principle activities are set out in the Strategic report on page 3.

The financial statements of Saltend Cogeneration Company Limited (the 'Company') for the year ended 31 December 2016 were authorised for issue by the board of directors on 28 July 2017 and the balance sheet was signed on the board's behalf by S Pinnell.

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100), as issued by the Financial Reporting Council. Accordingly, the Company reports under FRS 101 as issued by the Financial Reporting Council.

The Company is a majority owned subsidiary of IPM (UK) Holdings Limited and of its ultimate parent, ENGIE S.A (formerly GDF SUEZ S.A.). It is included in the consolidated financial statements of ENGIE S.A. which are publically available. The group accounts of ENGIE S.A. can be obtained as set out in note 23.

The principle accounting policies adopted by the Company are set out in note 2.

2. Accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been applied consistently to all years presented, unless otherwise stated.

2.1 Basis of Preparation

The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100), as issued by the Financial Reporting Council. Accordingly, in the year ended 31 December 2015, the Company has undergone the transition from reporting under UK GAAP to FRS 101 as issued by the Financial Reporting Council. These financial statements (including prior year comparatives) have therefore been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework', as issued by the Financial Reporting Council and in accordance with applicable accounting standards. The impact of the transition are outlined in note 24 to the financial statements.

As permitted by FRS 101, the Company has taken advantage of disclosure exemptions from applying the following requirements under the standard in relation to:

- i. IAS 1 'Presentation of Financial Statements paragraphs 10(d), 10(f), 39(c) and 134-136
- ii. IAS 7 'Statement of Cash Flows'
- iii. IAS 24 'Related Party Disclosures' paragraph 74(c);
- iv. IAS 36 'Impairment of Assets' paragraphs 134(d)-(f) and 135(c)-(e)
- v. IFRS 7 'Financial Instruments: Disclosures'

The Company has also taken advantage of the exemption from the requirements in IAS 24 'Related Party Disclosures' to disclose related party transactions entered into between two or more members of the ENGIE S.A. group where those party to the transaction are wholly owned by a member of the group.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.1 Basis of Preparation (continued)

Where required, equivalent disclosures are given in the group accounts of ENGIE S.A. (formerly GDF SUEZ S.A.). The group accounts of ENGIE S.A. are available to the public and can be obtained as set out in note 26.

The financial statements have been prepared on the historical cost basis, except for amounts in relation to derivative financial instruments. Historical cost is generally based on the fair value of the consideration given in exchange for the assets.

The Company's financial statements are presented in Pounds Sterling, because that is the currency of the primary economic environment in which the Company operates, and all values are rounded to the nearest thousand Pounds Sterling (£'000) except when otherwise indicated.

The company's ability to meet its liabilities as they fall due is dependent on IPM Holdings (UK) Limited, the immediate parent company, providing support to fund amounts owed in the next twelve months. A letter of support has therefore been provided by IPM Holdings (UK) Limited, which states that it will provide the necessary financial support to ensure that the Company is a going concern for at least twelve months from the date of signing these financial statements.

In making their assessment of going concern, the Directors have considered the intentions of IPM Holdings (UK) Limited to support the Company. After making enquiries, the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For these reasons, they continue to adopt the going concern basis of accounting in preparing the annual financial statements.

2.2 Changes in accounting policy and disclosures

Adoption of new and revised Standards

As explained above the Company has adopted FRS 101 for the first time in the prior year. As part of this adoption, the Company has applied a number of amendments to IFRSs and a new Interpretation issued by the International Accounting Standards Board (IASB) that are mandatorily effective for an accounting period that begins on or after 1 January 2014. These comprise: Amendments to IAS 36 Recoverable Amount Disclosures for Non-Financial Assets, Amendments to IAS 39 Novation of Derivatives and Continuation of Hedge Accounting, IFRIC 21. Levies, and Amendments to IAS 32 Offsetting financial assets and financial liabilities. Their adoption has had a material impact on the disclosures or on the amounts reported in these financial statements.

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Company in future periods.

2.3 Judgements and key sources of estimation uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenue and expenses during the year. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant, including expectations of future events that are believed to be reasonable under the circumstances. However, the nature of estimation means that actual outcomes could differ from those estimates.

The 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 if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.3 Judgements and key sources of estimation uncertainty (continued)

The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are disclosed below:

Critical judgements in applying the Company's accounting policies

There are no critical judgments, apart from those involving estimations (which are dealt with separately below), that the Directors have made in the process of applying the Company's accounting policies and that have a significant effect on the amount recognised in the financial statements.

Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Decommissioning Provision

The Company estimates the likely cost of removing the power plant and making good the damage to the site where a contractual decommissioning and restoration obligation exists. The provision of £2,986,000 (2015 £2,731,000) reflects the present value (based on an appropriate discount rate), at the balance sheet date of the decommissioning liability.

Recoverability of tangible fixed assets

Management have made key assumptions regarding the future technical availability of the power station, electricity prices, fuel costs, carbon cost and the UK inflationary environment which directly impact the future economic benefits to be derived from the tangible fixed assets. Changes in these assumptions will affect the estimated useful lives and residual value of the power stations and other tangible fixed assets. The Company reviews these estimates at each financial period end and also tests for impairment at least once a year or when a trigger event occurs if sooner. Management expect the future economic benefits that will result from the use of the tangible fixed assets will exceed the costs of the investments and thus the costs of the tangible fixed assets are recoverable.

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using valuation techniques including the discounted cash flows model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

2.4 Significant accounting policies

(a) Revenue recognition

Turnover is recognised to the extent that it is probable that the economic benefits will flow to the Company and turnover can be reliably measured. Turnover is measured at the fair value of the consideration received, excluding discounts, rebates, value added tax and other sales taxes. The following criteria must also be met before turnover is recognised:

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

(b) Revenue recognition (continued)

Turnover is recognised as output as it is delivered and represents the sale of electricity to third parties provided in their normal course of business, net of value added tax.

The Company operates solely in the United Kingdom electricity generation market.

(c) Interest expense

Interest expense is accrued on a time-proportion basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability to that liability's net carrying amount. Interest on loan amounts used for capital expenditure are capitalised according to the nature of the capital expenditure.

(d) Pension costs

The Company operates a defined contribution scheme. Contributions to the defined contribution scheme are charged in the period in which they arise.

(e) Operating leases

Leases where the Company is the lessee, and the lessor maintains a significant portion of the risks and rewards related to ownership of the fixed asset are recorded as operating leases. Fixed lease payments are recognised as an expense in the profit and loss account on a straight-line basis over the life of the lease. Where lease payments are contingent, for example on power output, the rent is recognised as an expense in the profit and loss account on an amortised cost basis when the contingency is resolved, for example when the level of power output in the period is known.

(f) Foreign currencies

In preparing the financial statements, transactions in foreign currencies are translated into the functional currency (Pounds Sterling) using the exchange rates prevailing at the dates of the individual transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at the exchange rate ruling at the reporting date are recognised in the profit and loss account. Non-monetary assets and liabilities are not carried at fair value are not subsequently restated and are carried at the rate of exchange at the date they are acquired (historical costs).

(g) Sales tax

Turnover, expenses and assets are recognised net of the amount of sales tax except:

- Where the sales tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the sales tax is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable.
- Debtors and creditors that are stated with the amount of sales tax included.

The net amount of sales tax recoverable from, or payable to, the taxation authority is included as part of debtors or creditors in the balance sheet.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(h) Income taxes

Income tax on the results for the year comprises current and deferred tax. Income tax is recognised in the Company's profit and loss account 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 on the taxable income for the period, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous periods.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

In accordance with IAS 12 *Income taxes*, Deferred income tax is provided in full, using the liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- Where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss; and
- Deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised.

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred incomes taxes relate to the same fiscal authority.

(i) Provisions

A provision is recognised in the balance sheet when the Company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of resources will be required to settle the obligation and the amount of that obligation has been reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Provisions are not recognised for future operating losses.

Where contractually obliged, the company creates provisions for the decommissioning of the power station and environmental restoration. The decommissioning and restoration provisions reflect the present value, at the balance sheet date, of the estimated cost. The provisions are reviewed at each balance sheet date and are adjusted to reflect the present value of the expense expected to be realised for the settlement of the liability.

The future cost is recognised in the balance sheet as a decommissioning asset by creating an increase in the tangible fixed assets. The depreciation expenses of capitalised decommissioning and restoration costs are included in the profit and loss account together with the depreciation charge on the power station's fixed assets. Any change in estimation in the estimated cost or the discount rate are added or deducted from the fixed asset's cost. The discounting effect on the provision is recorded in the profit and loss account as a finance cost.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(j) Tangible fixed assets

Tangible fixed assets are recognised at historical cost less any accumulated depreciation and any accumulated impairment losses. Costs related to assets under construction are capitalised where, in the opinion of the Directors, the related project is highly likely to be successfully developed and the economic benefits arising from future operations will exceed the amount of capitalised expenditure incurred to date and the cost can be measured reliably. Costs incurred prior to meeting the criteria for capitalisation are recorded as an expense within operating costs in the profit and loss account. Loan costs which are directly attributable to assets under construction and which meet the criteria in IAS23 are capitalised as part of the cost of those assets. Capitalisation ceases when the asset is fully operational.

Depreciation is provided on all tangible fixed assets, other than land and assets in the course of construction, which are depreciated from the date that they are commissioned, at rates calculated to write off the cost, less estimated residual value based on prices prevailing at the date of acquisition, of each asset on a straight-line basis over its useful life. In accordance with the components approach, each significant component of an item of property, plant and equipment with a different useful life from that of the main asset to which it relates is depreciated separately over its own useful life.

Tangible fixed assets are depreciated on a straight-line basis over their useful lives as follows:

- Fixtures and fittings, office equipment & vehicles - 3 to 7 years
- Long Term Service Agreement - 2 to 12 years
- Generation assets - 27 years
- Decommissioning asset - 27 years

Depreciation commences when the asset is ready for its intended use. The residual values, if not insignificant, and remaining useful lives are reassessed at each balance sheet date. When parts of an item of tangible fixed assets have different useful lives, those components are accounted for as separate classes of tangible fixed assets. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. Gains and losses on disposal of tangible fixed assets are determined by comparing the proceeds received with the carrying amount and are recognised within administrative expenses in the profit and loss account.

(k) Impairment of tangible fixed assets

In accordance with IAS 36, plant and machinery are reviewed for impairment at least once a year and whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Such indications may be based on events or changes in the market environment, or on internal sources of information.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units).

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(l) Loans and loan costs

All loans are initially recognised at the fair value of the consideration received net of issue costs associated with the loan. Loans are subsequently stated at amortised costs; whereby the carrying amount of the loan is increased by the finance cost incurred in respect of the accounting period and reduced by any cash payments made in the period.

Interest expense is recognised on the basis of the effective interest method and is included in finance costs.

Loan costs incurred for the construction of any qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use, whereas other loan costs are expensed.

Loans are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for at least 12 months from the balance sheet date.

(m) Stock

Stock has been stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing stock to its present location and condition are accounted for at the weighted average purchase cost.

(n) Trade and other debtors

Trade debtors, which generally have 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, debtors are carried at amortised cost. A provision for impairment of trade debtors is made when there is objective evidence that the Company will not be able to recover all amounts due according to the original terms of the debtor. Balances are written off when the probability of recovery is assessed as being remote and the amount of the loss is recognised in the profit and loss account within administrative expenses. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the profit and loss accounts.

(o) Trade creditors

Trade creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade creditors are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade creditors are recognised initially at fair value (transaction price) and subsequently measured at amortised cost using the effective interest method.

(p) Cash at bank and in hand

Cash at bank and in hand and short-term deposits in the balance sheet comprises cash on hand, deposits held at call with banks and short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(q) Share capital

Ordinary shares are classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of the direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

(r) Financial instruments

Financial assets and financial liabilities are recognised in the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Effective interest method

The *effective interest method* is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(r) Financial instruments (continued)

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the
- Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 *Financial Instruments: Recognition and Measurement* permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 38.

Loans and receivables

Trade receivables, loans, and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 30 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment is the differences between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(r) Financial instruments (continued)

the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

Financial liabilities and equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

Financial liabilities

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Financial liabilities at FVTPL

Financial liabilities are classified as at FVTPL when the financial liability is either held for trading or it is designated as at FVTPL.

A financial liability is classified as held for trading if:

- it has been incurred principally for the purpose of repurchasing it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Company manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial liability other than a financial liability held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial liability forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Company's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and IAS 39 Financial Instruments: Recognition and Measurement permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Notes to the Financial Statements

for the year ended 31 December 2016

2. Accounting policies (continued)

2.4 Significant accounting policies (continued)

(r) Financial instruments (continued)

Financial liabilities at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any interest paid on the financial liability and is included in the 'other gains and losses' line item in the income statement. Fair value is determined in the manner described in note 38.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately. The Company designates certain derivatives as either hedges of the fair value of recognised assets or liabilities or firm commitments (fair value hedges), hedges of highly probable forecast transactions or hedges of foreign currency risk of firm commitments (cash flow hedges).

A derivative with a positive fair value is recognised as a financial asset whereas a derivative with a negative fair value is recognised as a financial liability. A derivative is presented as a current asset due after one year or a creditor due after more than one year if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivatives are presented as current assets or current liabilities.

r) Operating Profit

Operating profit is stated before interest income and interest payable.

Notes to the Financial Statements

for the year ended 31 December 2016

3. Turnover

All turnover was generated in the UK from the supply of electricity to industrial and commercial customers.

An analysis of the Company's turnover is as follows:

	2016	2015
	£'000	£'000
Sale of power	320,722	278,233
Other income	10,585	12,070
	<u>331,307</u>	<u>290,303</u>

4. Operating profit

This is stated after charging:

	2016	2015
	£'000	£'000
Depreciation of owned assets	14,888	14,939
Net Exceptional costs		
- Impairment of fixed assets	-	102,610
- Insurance event	-	1,773
Fees paid to the Company's auditor for the audit of the financial statements	35	39
Operating lease rentals- land & buildings	256	289

5. Exceptional items reported after operating profit

Exceptional costs in 2015 of £102,610,000 relate to the impairment of property, plant and equipment and £1,773,000 being the company's insurance excess which was paid out due to a condenser tube leak on Unit 2 which caused significant damage to the unit. There were no exceptional events in 2016.

The effects of the exceptional items reported before operating profit were:

	2016	2015
	£'000	£'000
Asset impairment	-	102,610
Insurance event	-	1,773
Exceptional items charged	-	104,383

Notes to the Financial Statements

for the year ended 31 December 2016

6. Auditor's Remuneration

Fees payable to Deloitte LLP and their associates for the statutory audit of the Company's annual accounts were £35,000 (2015: £39,000). Audit fees were borne by another group company.

There were no fees payable by Saltend Cogeneration Company Limited to Deloitte LLP for non-audit services.

7. Directors' remuneration

The Directors did not receive any fees or emoluments from the Company during the year (2015: £nil) directly attributable to their position within the Company. All Directors' fees or emoluments were paid by International Power Ltd. and the amount attributable to the qualifying services provided by the Directors to the Company cannot be reliably estimated.

8. Staff costs

The Company had no employees during the current or prior year. A fellow subsidiary undertaking employs administrative and operational staff for the Company and appropriate recharges are made to the Company in accordance with the service level agreement between the parties.

9. Interest payable and similar charges

	2016 £'000	2015 £'000
Interest paid to group undertakings	4,645	4,694
Interest paid to other related parties	1,323	1,164
Unwinding of discount on decommissioning provision	98	54
Other interest expense	101	2,658
Total interest expense	6,167	8,570

10. Other gains and losses

	Year ended 2016 £'000	Year ended 2015 £'000
Change in the fair value of derivative assets outstanding at year end	8,095	1,005
Change in the fair value of derivative liabilities outstanding at year end	(17,168)	6,720
	(9,073)	7,725

No other gains or losses have been recognised in respect of loans and receivables or held-to-maturity investments. No gains or losses have been recognised on financial liabilities measured at amortised cost.

Notes to the Financial Statements

for the year ended 31 December 2016

11. Tax on profit on ordinary activities

The tax credit comprises:

	2016 £'000	2015 £'000
Tax Credit		
Current income tax:		
UK corporation tax on profits of the year	915	(6,758)
Adjustments in respect of previous periods	(1,849)	(87)
Total current income tax	(934)	(6,845)
Deferred tax: (note 19)		
Deferred income tax relating to the origination and reversal of temporary differences	(15)	3,709
Adjustments in respect of previous periods	-	-
Tax (credit)/charge in the profit and loss	(949)	(3,136)

The Company earns its profits primarily in the UK. Therefore the tax rate used for tax on profit on ordinary activities is the average standard rate for UK corporation tax, currently 20.00% (2015: 21.25 %.)

The charge for the year can be reconciled to the profit in the profit and loss account as follows:

	2016 £'000	2015 £'000
Reconciliation of tax charge		
(Loss) before tax	(4,497)	(127,443)
Profit multiplied by rate of corporation tax of 20.00% (2015: 20.25%)	(899)	(25,807)
Adjustments in respect of prior periods – current tax	(1,849)	(87)
Adjustments in respect of prior periods – deferred tax	-	-
Tax effect of non-deductible or non-taxable items	1,736	24,699
Change in deferred tax rate	63	(1,941)
Tax charge in the profit and loss	(949)	(3,136)

Unrecognised tax losses

The Company has tax losses which arose in the UK of £949,000 (2015: £3,136,000) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as there is uncertainty over the recoverability.

Notes to the Financial Statements

for the year ended 31 December 2016

12. Dividend paid

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016 (2015: £nil)

13. Tangible fixed assets

	Short leasehold land £'000	Assets under construction	Decom- missioning asset	Long Term Service Agreement £'000	Fixtures & Fittings	Generating Assets £'000	Total £'000
Cost							
At 1 January 2016	60	7,204	2,227	97,616	27,743	398,749	533,599
Additions	-	3,710	-	6,248	-	-	9,958
Cost revision	-	-	158	-	-	-	158
Disposals	-	(382)	-	-	-	-	(382)
Transfer	-	(5,952)	-	-	5,952	-	-
At 31 December 2016	60	4,580	2,385	103,864	33,695	398,749	543,333
Accumulated depreciation							
At 1 January 2016	-	-	606	63,337	12,588	386,552	463,083
Charge for the year	-	-	66	10,492	3,368	962	14,888
Impairment	-	-	-	-	-	-	-
At 31 December 2016	-	-	672	73,829	15,956	387,514	477,971
Net book amount							
At 31 December 2016	60	4,580	1,713	30,035	17,739	11,235	65,362
At 31 December 2015	60	7,204	1,621	34,279	15,155	12,197	70,516

Provision has been made for the costs of decommissioning the power plant based on a gross cost of £3,056,000 (2015: £3,056,000) at 2005 prices. These costs have been inflated by the relevant historic inflation rates and expected future rates to the station predicted end date and then discounted back at 3.2% to derive a net present value (2015: 3.58%). During the year a revaluation has occurred on the decommissioning provision as a result of a change in inflation rates and discount rate. The provision is expected to be utilised by 2040 (2015: 2040), in line with the revised UEL of the asset. Expenses corresponding to the reversal of discounting adjustments to long-term provisions are recorded under other interest payable and similar charges.

Notes to the Financial Statements

for the year ended 31 December 2016

14. Stock

	2016 £'000	2015 £'000
Plant spares and consumables	3,950	4,888
	<u>3,950</u>	<u>4,888</u>

15. Debtors due within one year

	2016 £'000	2015 £'000
Trade debtors	112	1
Amounts owed by group undertakings	119,400	80,737
Interest and similar income receivable	-	-
Prepayments	5,205	4,782
Accrued income	2,726	6,200
Other debtors	313	936
	<u>127,757</u>	<u>92,656</u>

Amounts owed by group undertakings includes a loan of £48m with IPM Energy Trading Limited and a £5.6m current account balance with IPM (UK) Power Ltd. The loan is unsecured, subject to floating rates of interest plus a margin and are repayable on demand

16. Creditors due within one year

	2016 £'000	2015 £'000
Trade creditors	886	487
Amounts owed to group undertakings	132,898	77,508
Amounts owed to related parties	9,313	-
Accruals and deferred income	17,605	33,707
Interest and similar expenses payable	620	628
Corporation tax payable	2,693	-
Other taxation and social security	13,846	6,518
	<u>177,861</u>	<u>118,848</u>

Amounts owed to group undertakings includes a loan of £48m with IPM (UK) Holdings Limited. The loan is unsecured, subject to floating rates of interest plus a margin and is repayable on demand and £27.9m being the current element of the loan with Engie CC (note 17).

Notes to the Financial Statements

for the year ended 31 December 2016

17. Creditors due after one year

	2016 £'000	2015 £'000
Amounts owed to group undertakings	88,313	116,250
Amounts owed to related parties	29,437	38,750
Derivative financial instruments	8,905	5,543
	<u>126,655</u>	<u>160,543</u>

In July 2013 the company entered into refinancing agreements with GDF Suez CC (now Engie CC) and Mitsui & Co (the Shareholder loan). The loans have fixed repayment dates which have been renegotiated to commence in July 2017 until 2022. Interest due on both the Intercompany and Shareholder loan is settled six monthly at a rate of LIBOR plus 2.70%.

	2016 £'000	2015 £'000
The maturity period of the loans is as follows:		
Between one and two years	25,200	37,250
Between two and five years	76,800	76,750
More than five years	15,750	41,000
Total loans (before costs)	<u>117,750</u>	<u>155,000</u>

18. Provisions

	Decommissioning £'000	Deferred taxation £'000	Total £'000
At 1 January 2016	2,731	15	2,746
Arising during the year	157	(15)	142
Unwinding of discount	98	-	98
Transferred from debtors	-	-	-
	<u>2,986</u>	<u>-</u>	<u>2,986</u>
At 31 December 2016			

Decommissioning provision

Provision has been made for the costs of decommissioning the power plant based on a gross cost of £3,056,000 (2015: £3,056,000) at 2005 prices. These costs have been inflated by the relevant historic inflation rates and expected future rates to the station predicted end date and then discounted back at 3.30% to derive a net present value (2015: 3.58%). During the year a revaluation has occurred on the decommissioning provision as a result of a change in inflation rates and discount rate. The provision is expected to be utilised by 2040 (2015: 2040), in line with the revised UEL of the asset.

Notes to the Financial Statements

for the year ended 31 December 2016

19. Deferred tax

An analysis of the movements in deferred tax is as follows:

	2016 £'000	2015 £'000
Deferred tax asset at 1 January	15	(3,694)
Deferred tax charge in profit and loss account for the year (note 9)	(15)	3,709
Deferred tax charge to equity	-	-
	<hr/>	<hr/>
Deferred tax (asset) at 31 December	-	15
	<hr/>	<hr/>
Analysed as:	2016 £'000	2015 £'000
Decelerated capital allowances	-	-
Other short-term temporary differences	-	15
Timing difference on Cash flow hedge movements	-	-
	<hr/>	<hr/>
	-	15
	<hr/>	<hr/>

The UK corporation tax rate was reduced from 20% to 19% effective 1 April 2017. Any deferred tax expected to reverse in the year to 31 December 2017 has been remeasured using the rates substantively enacted at 31 December 2016.

20. Financial instruments

Fair values

Set out below is an analysis by category of the Company's financial instruments that are carried at fair value in the financial statements. Note that in all cases the fair value is equal to the carrying value of those assets and liabilities.

	2016 £'000	2015 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL) *	44,936	36,841
Financial liabilities at fair value		
Fair value through profit and loss (FVTPL) *	53,923	36,755
*see note on economic hedges below		

Notes to the Financial Statements

for the year ended 31 December 2016

20. Financial instruments (continued)

Changes in value of financial instruments at fair value

Profit for the year has been arrived at after charging/(crediting):

	Year ended 2016 £'000	Year ended 2015 £'000
Financial assets at fair value		
Fair value through profit and loss (FVTPL)	(8,095)	(1,005)
Financial liabilities at fair value		
Fair value through profit and loss (FVTPL)	17,168	(6,720)

Valuation techniques and assumptions applied for the purposes of measuring fair value

The fair values of derivative instruments are calculated using prices derived from observable macroeconomic data and are provided by the ENGIE group. The consolidated financial statements of ENGIE S.A. may be obtained from its registered office at 1 Place Samuel de Champlain, 92400 Courbevoie, Paris, France.

Hedging activities

Economic hedges

The Company enters into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management.

The Company had entered into wholesale purchase commitments for future delivery under certain supply contracts where the contract permits the customer to sell back the purchases made prior to delivery. The purchase commitments related to such supply contracts have been fair valued through the profit and loss. The supply contracts with such customers are designated as derivatives and these supply contracts are also fair valued through the profit and loss (see note 2).

Purchase commitments under all other supply contracts not containing a sell back facility are not fair valued but are measured using regular trade date accounting as these are classified as held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Sensitivity analysis

The following sensitivity analysis shows the impact on the Company's results of changes in market prices as a result of entering into financial instruments including derivatives. The sensitivity shows the impact on the Company's profit after (PAT) for the year and equity at the year end arising from changes in the fair value of forward contracts which have been entered into to hedge risks arising in the company by another group company.

Notes to the Financial Statements

for the year ended 31 December 2016

20. Financial instruments (continued)

	(Decrease)/ increase in PAT £'000	(Decrease)/ increase in PAT £'000
20% increase in forward price curves for electricity	(50,484)	(50,484)
20% decrease in forward price curves for electricity	50,484	50,484
20% increase in forward price curves for gas	34,035	34,035
20% decrease in forward price curves for gas	(34,035)	(34,035)

21. Authorised, issued and called up share capital

	2016		2015	
	Number	£'000	Number	£'000
<i>Authorised</i>				
'A' Ordinary shares of 10p each	237,860,000	23,786	237,860,000	23,786

22. Other financial commitments

Operating leases

The Company has entered into a commercial operating lease on the land on which the power station is built.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and building	
	2016 £'000	2015 £'000
Not later than one year	325	256
After one year but not more than five	1,363	1,024
After five years	6,477	5,121
	<u>8,165</u>	<u>6,401</u>

Land & Building commitments are those created by the lease of land at Saltend Chemicals Park. Leases of land and buildings are typically subject to rent reviews at specified intervals.

Long Term Maintenance Agreement

In December 2016 the Company signed an amendment to a long term service agreement extending this agreement to end in 2023 (2015: 2021). The Company is committed to paying £56,826,000 (2015: £64,310,000) under this agreement.

Notes to the Financial Statements

for the year ended 31 December 2016

23. Related party transactions

As at 31 December 2016 and 31 December 2015, the Company was a wholly owned subsidiary of IPM Holdings (UK) Limited which is a wholly owned subsidiary of Engie S.A.

During the year, the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries. Transactions entered into, and trading balances outstanding at 31 December with other related parties, are as follows:

International Power Ltd (formerly International Power PLC) 'IPR' is a group undertaking of ENGIE S.A with an indirect 75% interest and is therefore a related party. In the normal course of business, Saltend Cogeneration Company purchased services amounting to £0.5m (2015: £0.6m) from IPR. In respect of these transactions, a credit balance of £0.06m (2015: credit balance of £0.3m) was included in intercompany creditors.

ENGIE CC is a group undertaking of ENGIE S.A with an indirect 75% interest and is therefore a related party. In July 2013 the Company was partly refinanced by a loan from ENGIE CC of £116.25m and in the year ended December 2016 incurred an interest charge of £3.8m. In respect of this loan, a credit balance of £1.7m was included in creditors. This loan has been provided at rates comparable to the average commercial rate of interest.

Mitsui & Co. Ltd, indirectly own 25% of Saltend Cogeneration Company Limited and is therefore a related party. In July 2016 the Company was partly refinanced by a loan from Mitsui & Co of £37.5m and in the year ended 31 December 2016 incurred an interest charge of £1.3m. In respect of this loan, a credit balance of £0.6m was held within creditors. This loan has been provided at rates comparable to the average commercial rate of interest.

24. Controlling party

The Company's immediate parent undertaking is IPM Holdings (UK) Limited, a Company registered in England and Wales, the registered address of which Level 20, 25 Canada Square, London E14 5LQ, United Kingdom.

The Directors consider the Company's ultimate parent undertaking and ultimate controlling party to be ENGIE S.A. (formerly GDF SUEZ S.A.), which was incorporated in France and is headquartered in Paris, France and which is the parent undertaking of the largest and smallest group in which the results of the Company are consolidated for the year ended 31 December 2015 and the year ended 31 December 2014. The consolidated financial statements of ENGIE S.A. may be obtained from its registered office at 1 Place Samuel de Champlain, 92400 Courbevoie, Paris, France.

25. Non adjusting events after the financial period

Aside from the sale disclosure mentioned in the strategic report on page 6, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.