Sembcorp Utilities (UK) Limited

Directors' report and financial statements

Registered number 4636301

31 December 2008

Contents

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2008.

The company is a wholly owned subsidiary of Sembcorp Utilities Pte Limited, a major international integrated services provider.

Principal activities

The company provides industrial solutions to its customers by delivering a range of integrated services. In Q4 2008 the business was restructured in line with the Sembcorp group structure, of which the principle elements are:

Asset Management — Generation and supply of heat and power, the supply of water and industrial gases, integrated stores, warehousing, infrastructure, environmental and analytical services.

Industrial Park Services — Protection of customers' assets, reputation and people through services such as emergency response, security and community response.

Business review

Performance

The results for the year are as follows:

	2008 £000	2007 £000
Profit for the financial year	**26,690**	35,352
Dividends on shares classified in shareholders' funds	**(11,139)**	(12,289)
Retained profit for the year	**15,551**	23,063

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

	2008 £000	2007 £000
Turnover	**230,620**	276,085
Gross profit	**47,776**	56,355
Operating profit	**39,512**	48,870
Operating profit margin	**17.1%**	17.7%

The directors are satisfied with the results of the year. The reduction in turnover and profit results from the contractual conclusion of a long term power purchase and site services agreement at the end of the first quarter of 2008. Otherwise underlying profit improved following increased contribution from Wilton 10 (a wood burning biomass boiler) throughout the year. During 2008 the company continued to build a 40 megawatt gas turbine. The project will supply power and steam to a new customer which is expected to come on line at Wilton in 2009.

The balance sheet as at 31 December 2008 demonstrates that the financial position of the company has improved with net assets of £143.4 million *(2007: £128.4 million).*

Measurement

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

As far as financial performance is concerned the key measurements used by the company are turnover and operating profit margin percentage as reported on the face of the profit and loss account.

Directors' report *(continued)*

Business review *(continued)*

Risks and uncertainties

The principal issues facing the company include:

- the response of the company's customers, on the Wilton site, to the global recession. The company provides industrial solutions to customers predominantly on the Wilton site in Teesside and as such the company is reliant on these customers to continue in operational existence for the foreseeable future and to remain at Wilton. Due to the general difficult economic conditions, being experienced throughout the global chemical sector, any restructuring or reduction in output by customers will impact the company's future performance and results.

  Whilst the current economic conditions create an element of uncertainty, the company's forecasts and projections show that it is well placed to manage its business risks successfully, despite the economic uncertainty.
- potential exposure to movements in commodity prices including power prices, this issue is further discussed in the Treasury Policies below; and
- legislative risks - the company has to comply with a wide range of legislation and regulatory requirements including environmental and health and safety laws. The company monitors its compliance with its regulatory and environmental obligations on an ongoing basis.

Outlook

The directors expect two new customer plants to come on line at Wilton in 2009, a 60 tonne per hour capacity LDPE plant and a 100 tonne per hour capacity bio ethanol plant. Notwithstanding the second paragraph in the post balance sheet events note below, the directors remain confident that the company will maintain a satisfactory level of performance in the future.

Post balance sheet events

The revised Renewables Obligation legislation came into force on 1 April 2009, which now allows the company to earn an additional 0.5 ROC per megawatt hour of power generation from its biomass boiler. However, the revised legislation stipulates that if the company previously received a related grant then this must be repaid in order to receive the additional ROC. After careful consideration, and whilst there were no other requirements to repay the grant, the directors took a commercial decision to voluntarily repay the grant in March 2009 in order to access the additional ROCs going forward.

In April 2009 one of the company's larger customers served notice upon the company to end both the Asset Management and Business Park Services contracts. The notice periods, in respect of the Asset Management and the Business Park Services contracts, are due to end in March 2010.

Treasury policies

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

The main risks associated with the company's financial assets and liabilities are set out below.

Foreign currency risk

The company's operations are materially exclusive to the United Kingdom. However, as a result of the company's capital programme, which includes a new gas turbine which is under construction, a significant element of capital purchases are denominated in US Dollars and Euros.

The company seeks to mitigate the effect of its currency exposures by fixing the exchange rates of foreign currencies at the time contracts are entered into for all material foreign currency contracts. As a result the company believes that it has effectively managed its exposure to foreign currency risks to a minimal level as at the balance sheet date.

Directors' report *(continued)*

Treasury policies *(continued)*

Interest rate risk

The company's policy is to manage its cost of borrowing predominantly through fixed rate debt.

The company uses interest rate swaps agreed with other parties to generate the desired interest profile, agreeing to exchange, at specified intervals, the difference between fixed rate and variable interest amounts calculated by reference to an agreed-upon notional principal. At the year end, 67% *(2007: 63%)* of the company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this given the company's high cash balance.

Credit risk

The risk of financial loss due to a counterparty's failure to honour its obligations arises principally in relation to transactions where the company enters into derivative or fixed price contracts requiring settlement by the other party.

Company policies are aimed at minimising such losses, and require that deferred terms are granted only to customers who demonstrate an appropriate payment history and satisfy creditworthiness procedures. Individual exposures are monitored with customers subject to credit limits to ensure that the company's exposure to bad debts is not considered to be significant.

Levels of overdue debts are monitored closely by management. A process for alerting management to operations failing to meet monthly cash collection targets serves to reduce the likelihood of an unmanaged concentration of credit risk.

Company policies also restrict the counterparties with which derivative transactions or fixed price commodity transactions can be contracted. Management ensures that exposure is spread across a number of approved financial institutions.

Liquidity risk

The company aims to mitigate liquidity risk by applying cash collection targets. Investment is carefully controlled, with authorisation limits operating up to board level and cash payback periods applied as part of the investment appraisal process. In this way the company aims to maintain a good credit rating to facilitate fund raising.

As part of its funding strategy, the company has entered into a twelve year bank loan facility, elements of which were drawn down to finance the construction of Wilton 10. The repayment profile of the loan is consistent with the directors' view of the future cashflows of the company. Excess cash used in managing liquidity is only invested in financial instruments exposed to insignificant risk of changes in market value, being placed on interest-bearing deposit with maturities fixed at no more than 6 months.

Price risk

The company is potentially exposed to commodity price risk, in particular to movements in power prices. The company seeks to manage its exposure to commodity price risk by entering into fixed price contracts where this is appropriate. As a result, exposures to changes in commodity prices are satisfactorily managed.

It is, and has been throughout the period under review, the company's policy that no trading in derivative financial instruments shall be undertaken.

Dividend

Dividends paid during the year comprise an interim dividend of £11,139,000 in respect of the year ended 31 December 2008.

The directors do not recommend the payment of a final dividend.

Directors' report *(continued)*

Market value of land and buildings

In the opinion of the directors, there is no significant difference between the book value and the market value of land and buildings.

Policy and practice on payment of creditors

The company agrees terms and conditions for its business transactions with suppliers. Payment is then made to these terms and conditions if they are met by the supplier. The trade creditor days ratio for the company is 16 days *(2007: 28 days)*.

Directors

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

P D Gavens
A J McLeod
Tang Kin Fei
Tan Cheng Guan
Lim Suet Boey
Joseph Francis Gomez (resigned 3 March 2009)

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

Employees

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

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

Political and charitable contributions

The company made no political contributions during the year. Charitable donations amounted to £63,866 *(2007: £49,863)*.

Disclosure of information to auditors

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 auditors are unaware; and each director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Directors' report *(continued)*

Auditors

On 6 June 2008 Ernst & Young LLP resigned as auditors of the company and KPMG LLP were appointed to fill the casual vacancy arising.

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

By order of the board

P D Gavens
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

29 April 2009

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The financial statements are required by law to 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 judgments and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; 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 proper accounting records that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

KPMG

KPMG LLP
Quayside House
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Newcastle upon Tyne
NE1 3DX
United Kingdom

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

We have audited the financial statements of Sembcorp Utilities (UK) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Note of Historical Cost Profits and Losses, the Reconciliation of Movements in Shareholders' Funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. 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 auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 8.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

KPMG LLP.

KPMG LLP
Chartered Accountants
Registered Auditor

29 April 2009

Profit and Loss Account
for the year ended 31 December 2008

	Note	**2008** **£000**	2007 £000
Turnover	*2*	**230,620**	276,085
Cost of sales		**(182,844)**	(219,730)
Gross profit		**47,776**	56,355
Administrative expenses		**(10,059)**	(9,031)
Other operating income	*3*	**1,795**	1,546
Operating profit		**39,512**	48,870
(Loss)/profit on sale of fixed assets		**(251)**	3,156
Other interest receivable and similar income	*6*	**2,073**	3,049
Other finance income	*7*	**694**	1,073
Interest payable and similar charges	*8*	**(6,839)**	(5,556)
Profit on ordinary activities before taxation	*3-5*	**35,189**	50,592
Tax on profit on ordinary activities	*9*	**(8,499)**	(15,240)
Profit for the financial year	*20*	**26,690**	35,352

All of the results above derive from continuing activities.

Balance Sheet
at 31 December 2008

	Note	2008 £000	2008 £000	2007 £000	2007 £000
Fixed assets					
Negative goodwill	11		(5,734)		(6,351)
Intangible assets	11		2		3
Tangible assets	12		231,995		221,684
Investments	13		-		-
			226,263		215,336
Current assets					
Stocks	14	10,784		4,856	
Debtors	15	30,401		53,650	
Cash at bank and in hand		24,814		40,011	
		65,999		98,517	
Creditors: amounts falling due within one year	16	(40,384)		(78,365)	
Net current assets			25,615		20,152
Total assets less current liabilities			251,878		235,488
Creditors: amounts falling due after more than one year	17		(76,882)		(88,940)
Provisions for liabilities	18		(34,338)		(20,331)
Net assets excluding pension assets			140,658		126,217
Pension assets	23		2,767		2,145
Net assets including pension assets			143,425		128,362
Capital and reserves					
Called up share capital	19		30,967		30,967
Revaluation reserve	20		10,900		11,191
Capital contribution reserve	20		470		-
Profit and loss account	20		101,088		86,204
Shareholders' funds			143,425		128,362

These financial statements were approved by the board of directors on 29 April 2009 and were signed on its behalf by:

AJMcLeod

P D Gavens
Director

A J McLeod
Director

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2008

	2008 £000	As restated 2007 £000
Profit for the financial year	**26,690**	35,352
Unrealised surplus on revaluation of properties	**-**	11,191
Actuarial (loss)/gain recognised in the pension scheme	**(808)**	7,582
Deferred tax arising on (losses)/gains in the pension scheme	**226**	(2,365)
Total recognised gains and losses relating to the financial year	**26,108**	51,760

The 2007 figures above have been restated to include the unrealised surplus on revaluation of properties.

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 December 2008

	2008 £000	2007 £000
Profit for the financial year	**26,690**	35,352
Dividends on shares classified in shareholders' funds	**(11,139)**	(12,289)
Retained profit	**15,551**	23,063
Unrealised surplus on revaluation of properties	**-**	11,191
Net gains and losses in respect of FRS 17	**(582)**	5,217
Net credit in relation to share based payments	**94**	245
Net addition to shareholders' funds	15,063	39,716
Opening shareholders' funds	**128,362**	88,646
Closing shareholders' funds	**143,425**	128,362

Note of Historical Cost Profits and Losses
for the year ended 31 December 2008

	2008 £000	2007 £000
Reported profit on ordinary activities before taxation	**35,189**	50,592
Realisation of property revaluation gains of previous years	**291**	-
Historical cost profit on ordinary activities before taxation	**35,480**	50,592
Historical cost profit for the year retained after taxation and dividends	**15,842**	23,063

Notes
(forming part of the financial statements)

1 Accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements, except as noted below.

The amendment to FRS 17 'Retirement benefits' has been adopted in these financial statements for the first time and the disclosures it requires have been presented for both the current and comparative period. The amendment to FRS 17 also requires that quoted securities are valued at their current bid-price rather than their mid-market value. The comparative numbers have not been restated on the basis that the effect of this change was not material.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost accounting rules, modified to include the revaluation of investment properties.

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

The current economic conditions create an element of uncertainty over demand for some of the company's service offering. The company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the company is expected to have a sufficient level of financial resources available through current banking facilities and therefore the directors believe that the company is well placed to manage its business risks successfully despite the economic uncertainty.

After making enquiries, the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to prepare the financial statements on a going concern basis.

The company is exempt by virtue of s228A of the Companies Act 1985 from the requirement to prepare group financial statements. These financial statements present information about the company as an individual undertaking and not about its group.

Under FRS 1 the company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

As 100% of the company's voting rights are controlled within the group headed by Sembcorp Industries Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Sembcorp Industries Limited, within which this company is included, can be obtained from the address given in note 27.

Goodwill and negative goodwill

Negative goodwill, being the excess of the fair value of assets and liabilities acquired over the costs of their acquisition, is capitalised and classified on the balance sheet as a negative fixed asset. It is amortised over the periods in which the non-monetary assets acquired are depreciated or sold, which is currently estimated to be 15 years.

Positive goodwill arising on acquisitions is capitalised, classified as an asset on the balance sheet and amortised on a straight-line basis over its useful economic life. It is reviewed for impairment at the end of the first full financial year following the acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable.

Notes *(continued)*

1 Accounting policies *(continued)*

Intangible fixed assets

Carbon trading

Carbon allowances received by the company are accounted for using the 'net liability' method. This means that any surplus quantities of allowances above those which are forecast to be required for the company's own use are accounted for as an intangible asset together with a related deferred income balance in the balance sheet at their nominal amount of £0.01 per carbon allowance. A liability would only crystallise when emissions are greater than the allowances granted.

Investments

Investment in subsidiary undertaking is stated at cost less amounts written off.

Tangible fixed assets and depreciation

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

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

Cost includes directly attributable finance costs.

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.

Investment properties

Certain of the company's land is held for long-term investment. Investment properties are accounted for in accordance with SSAP 19, as follows:

- The value of investment properties is reviewed annually and the properties are not depreciated. The surplus or deficit on revaluation is transferred to the revaluation reserve unless a deficit below original cost, or its reversal, on an individual investment property is expected to be permanent, in which case it is recognised in the profit and loss account for the year.

Although the Companies Act would normally require the systematic annual depreciation of fixed assets, the directors believe that the policy of not providing depreciation is necessary in order for the financial statements to give a true and fair view, since the current value of investment properties, and changes to that current value, are of prime importance rather than a calculation of systematic annual depreciation. Depreciation is only one of the many factors reflected in the annual valuation, and the amount which might otherwise have been included, cannot be separately identified or quantified.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

Notes *(continued)*

1 Accounting policies *(continued)*

Government grants

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

Leases

Operating lease rentals are charged to the profit and loss account on a straight line basis over the period of the lease.

Post-retirement benefits

The company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the company in an independently administered fund. The amount charged to the profit and loss account represents the contributions payable to the scheme in respect of the accounting period.

The company also operates a pension scheme, the Sembcorp Utilities Teesside Pension Scheme, providing benefits based on final pensionable pay. The scheme is closed to new entrants. The assets of the scheme are held separately from those of the company.

Pension scheme assets are measured using market values. For quoted securities the current bid price is taken as market value. Pension scheme liabilities are measured using a projected unit credit method and discounted at the current rate of return on a high quality corporate bond of equivalent term and currency to the liability.

The pension scheme surplus (to the extent that it is recoverable) or deficit is recognised in full. The movement in the scheme surplus/deficit is split between operating charges, finance items and, in the statement of total recognised gains and losses, actuarial gains and losses.

Research and development expenditure

Research and development expenditure is written off as incurred, except that development expenditure incurred on an individual project is carried forward when its future recoverability can reasonably be regarded as assured. Any expenditure carried forward is amortised in line with the expected future sales from the related project.

Stocks and long term contracts

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

Profit on long term contracts is taken as the work is carried out if the final outcome can be assessed with reasonable certainty. The profit included is calculated on a prudent basis to reflect the proportion of the work carried out at the year end, by recording turnover and related costs (as defined in Stocks above) as contract activity progresses. Turnover is calculated as that proportion of total contract value which costs incurred to date bear to total expected costs for that contract. Revenues derived from variations on contracts are recognised only when they have been accepted by the customer. Full provision is made for losses on all contracts in the year in which they are first foreseen.

Renewable Obligations Certificates (ROCs) and Renewable Levy Exemption Certificates (RLECs)

The company is able to claim Renewable Obligation Certificates ("ROCs") and Renewable Levy Exempt Certificates ("RLECs") from the Office of Gas and Electricity Markets ("OFGEM") as a result of burning renewable fuels. ROCs and RLECs are accounted for in accordance with the principles of SSAP 4 ("Accounting for government grants") and are recognised once the company has met the conditions attaching to their receipt and there is reasonable assurance that these will be received. A market exists for the sale of ROCs and RLECs. ROCs and RLECs are recorded at market value and included within stock in the balance sheet where the company has entered into an agreement with a third party for their subsequent sale. Income from the sale of ROCs and RLECs is credited to turnover once the risks and rewards of ownership have been transferred to a third party.

Notes *(continued)*

1 Accounting policies *(continued)*

Levy Exemption Certificates (LECs)

Income from the sale of LECs is credited to turnover in the profit and loss account in the period in which the certificates are sold. LECs are recognised in the balance sheet at the date they are awarded. They are allocated a notional value at that date, unless they are to be used to meet an external liability, in which case they are valued at an amount equivalent to the associated liability.

Taxation

Corporation tax payable is provided on taxable profits at the current rate. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

- provision is made for tax on gains arising from the revaluation (and similar fair value adjustments) of fixed assets, and gains on disposal of fixed assets that have been rolled over into replacement assets, only to the extent that, at the balance sheet date, there is a binding agreement to dispose of the assets concerned. However, no provision is made where, on the basis of all available evidence at the balance sheet date, it is more likely than not that the taxable gain will be rolled over into replacement assets and charged to tax only where the replacement assets are sold;
- deferred tax assets are recognised only to the extent that the directors consider that it is more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Debt issue costs

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

Classification of financial instruments issued by the company

Financial instruments issued by the company are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

a) they include no contractual obligations upon the company to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the company; and
b) where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

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

Where a financial instrument that contains both equity and financial liability components exists these components are separated and accounted for individually under the above policy. The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Finance payments associated with financial liabilities are dealt with as part of interest payable and similar charges. Finance payments associated with financial instruments that are classified as part of shareholders' funds (see dividends policy), are dealt with as appropriations in the reconciliation of movements in shareholders' funds.

Notes *(continued)*

1 Accounting policies *(continued)*

Turnover

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

Share based payments

The share option programme allows employees to acquire shares of the ultimate parent company, Sembcorp Industries Limited. The fair value of employee services received in exchange for grant of the options is recognised as an employee expense with a corresponding increase in capital and reserves. The fair value is measured at grant date and spread over the period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using an option pricing model, taking into account the terms and conditions upon which the options were granted. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest except where forfeiture is only due to share prices not achieving the threshold for vesting. The company has taken advantage of the transitional provision of FRS 20 so as to apply FRS 20 only to those equity settled awards granted after 7 November 2002 that had not vested before 1 January 2006.

Dividends on shares presented within shareholders' funds

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Analysis of turnover

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

3 Notes to the profit and loss account

	2008 £000	2007 £000
Profit on ordinary activities before taxation is stated after charging/(crediting:)		
Depreciation and other amounts written off tangible fixed assets:		
Owned	**13,300**	10,650
Hire of plant and machinery	**429**	648
Hire of other assets - operating leases	**250**	243
Operating lease rentals receivable - land and buildings	**(1,795)**	(1,546)
Amortisation of negative goodwill	**(617)**	(617)
Release of government grant	**(446)**	(112)

Auditors' remuneration:

	2008 £000	2007 £000
Audit of these financial statements	**79**	76
Amounts receivable by the auditors and their associates in respect of:		
Other services relating to taxation	**-**	44
All other services	**9**	-

Notes *(continued)*

4 Remuneration of directors

	2008 £000	2007 £000
Directors' emoluments	**313**	299

The aggregate emoluments of the highest paid director were £283,000 *(2007: £259,000)*. He is a member of a defined benefit scheme, under which his accrued pension at the year end was £116,000 *(2007: £108,000)*.

	Number of directors	
	2008	2007
Retirement benefits are accruing to the following number of directors under:		
Defined benefit schemes	**1**	1

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

5 Staff numbers and costs

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

	Number of employees	
	2008	2007
Operating	**494**	587
Administration	**120**	91
	614	678

The aggregate payroll costs of these persons were as follows:

	2008 £000	2007 £000
Wages and salaries	**20,514**	20,393
Share based payments (note 24)	**364**	245
Social security costs	**1,893**	1,859
Other pension costs (note 23)	**1,770**	1,913
	24,541	24,410

Notes *(continued)*

6 Other interest receivable and similar income

	2008	2007
	£000	£000
Bank interest receivable	**2,073**	3,049

7 Other finance income

	2008	2007
	£000	£000
Expected return on pension scheme assets	**5,492**	5,480
Interest on pension scheme liabilities	**(4,798)**	(4,407)
	694	1,073

8 Interest payable and similar charges

	2008	2007
	£000	£000
On bank loans	**6,444**	4,905
On amounts payable to group undertakings	**246**	502
Finance costs on shares classified as liabilities	**149**	149
	6,839	5,556

In addition to the above, finance costs of £nil *(2007: £1.483 million)* have been capitalised into tangible fixed assets.

The bank loan interest above includes amortisation of deferred fees of £240,000 relating to the bank loan *(2007: £237,000)*.

Notes *(continued)*

9 Taxation

Analysis of charge in period

	2008		2007	
	£000	**£000**	£000	£000
UK corporation tax				
Current tax on income for the period	**3,554**		10,898	
Adjustments in respect of prior periods	**(9,530)**		-	
Total current tax		**(5,976)**		10,898
Deferred tax (see note 18)				
Origination of timing differences	**6,842**		4,342	
Impact of the difference in the effective tax rate	**(119)**		-	
Adjustment in respect of previous years	**7,752**		-	
Total deferred tax		**14,475**		4,342
Tax on profit on ordinary activities		**8,499**		15,240

Factors affecting the tax charge for the current period

For the year ended 31 December 2008, the company was subject to UK corporation tax at a base rate of 30% for the 3 months to 31 March 2008 and 28% from 1 April 2008 to 31 December 2008 *(2007: 30%)*.

The current tax charge for the period is lower *(2007: lower)* than the standard rate of corporation tax in the UK, 28.5% - average rate *(2007: 30%)*. The differences are explained below.

	2008	2007
	£000	£000
Current tax reconciliation		
Profit on ordinary activities before tax	**35,189**	50,592
Current tax at 28.5% *(2007: 30%)*	**10,029**	15,178
Effects of:		
Finance charge on shares classified as liabilities	**42**	45
Expenses not deductible for tax purposes and other permanent differences	**325**	-
Non taxable income	-	(125)
Capital allowances for period in excess of depreciation	**(6,390)**	(3,879)
Other short term timing differences	**(452)**	(321)
Adjustments to tax charge in respect of previous periods	**(9,530)**	-
Total current tax (credit)/charge (see above)	**(5,976)**	10,898

Factors that may affect future current and total tax charges

There are no factors expected to significantly affect future tax charges.

No provision has been made for deferred tax on gains potentially arising on the initial revaluation of acquired property to its fair value and market value. Such tax would become payable only if the property were sold without it being possible to claim rollover relief. The total amount unprovided at the year end is £4,031,000 *(2007: £4,031,000)*. At present, it is not envisaged that any tax will become payable in the foreseeable future.

Notes *(continued)*

10 Dividends

The aggregate amount of dividends comprises:

	2008 £000	2007 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	-
Interim dividends paid in respect of the current year	11,139	12,289
Aggregate amount of dividends paid in the financial year	11,139	12,289
Dividends in respect of the year recognised as a liability at the year end	-	-
	11,139	12,289

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil *(2007: £nil).*

11 Intangible fixed assets

	Carbon trading certificates £000	Negative goodwill £000
Cost		
At beginning of year	3	(9,241)
Written back	(1)	-
At end of year	2	(9,241)
Amortisation		
At beginning of year	-	2,890
Credited in year	-	617
At end of year	-	3,507
Net book value		
At 31 December 2008	**2**	**(5,734)**
At 1 January 2008	3	(6,351)

Notes *(continued)*

12 Tangible fixed assets

	Investment properties £000	Land and buildings £000	Plant and equipment £000	Vehicles £000	Assets under construction £000	Total £000
Cost or valuation						
At beginning of year	15,871	13,763	198,582	765	33,877	262,858
Additions	-	-	-	-	24,044	24,044
Disposals	(413)	(6)	(34)	-	-	(453)
Transfers between items	-	114	9,982	-	(10,096)	-
At end of year	15,458	13,871	208,530	765	47,825	286,449
Depreciation						
At beginning of year	-	1,439	39,230	505	-	41,174
Charge for year	-	326	12,867	107	-	13,300
On disposals	-	(1)	(19)	-	-	(20)
At end of year	-	1,764	52,078	612	-	54,454
Net book value						
At 31 December 2008	**15,458**	**12,107**	**156,452**	**153**	**47,825**	**231,995**
At 1 January 2008	15,871	12,324	159,352	260	33,877	221,684

During the year, the directors reviewed the period over which they expect to derive economic benefit from certain assets included within plant and equipment. The directors have revised their estimate of the useful economic life of these assets from 15 years to 20 years, based on their long term strategic plans for the business and in view of the underlying infrastructure which now supports the utilities business. The carrying amount of this plant and equipment at the date of the revision of £48.27 million is now being written off over the remaining life of the assets. This has reduced the annual depreciation charge in the current and subsequent years by £1.16 million.

Included within land and buildings is long leasehold land of £3.46 million *(2007: £3.46 million)*. The remaining land and buildings are freehold. Plant and equipment as at 31 December 2008 include capitalised interest of £1.483 million *(2007: £1.483 million)*.

The following information relates to tangible fixed assets carried on the basis of revaluations in accordance with FRS 15 *Tangible fixed assets.*

Investment properties

	2008 £000	2007 £000
On open market basis:		
30 November 2007	**15,458**	15,871
Aggregate depreciation thereon	**-**	-
Net book value	**15,458**	15,871
Historical cost of revalued assets	**4,557**	4,679
Aggregate depreciation thereon	**-**	-
Historical cost net book value	**4,557**	4,679

Notes *(continued)*

12 Tangible fixed assets *(continued)*

The last full valuation was performed at 30 November 2007 by Sanderson Weatherall Limited (Chartered Surveyors and Property Consultants). 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 are not aware of any material change in value and therefore the valuations set out above have not been updated.

13 Fixed asset investments

	Shares in group undertaking £
Cost and net book value	
At beginning and end of year	2

The company has one 100% owned subsidiary company, Wilton Energy Limited incorporated in the UK, whose principal activity is selling electricity.

Wilton Energy Limited commenced trading on 1 March 2006. The summarised profit and loss account is as follows:

	2008 £000	2007 £000
Turnover	1,165	626

	2008 £000	2007 £000
Operating profit	4	3
Profit before taxation	4	3
Taxation	(2)	(1)
Profit for the year	2	2

The summarised balance sheet at 31 December is as follows:

	2008 £000	2007 £000
Current assets	150	206
Current liabilities	(144)	(202)
Total assets less current liabilities	6	4
Shareholders' funds	6	4

Notes *(continued)*

14 Stocks

	2008 £000	2007 £000
Raw materials	4,525	2,452
Engineering spares	3,379	2,404
Renewable obligation certificates	2,880	-
	10,784	4,856

15 Debtors

	2008 £000	2007 £000
Trade debtors	26,649	50,123
Amounts recoverable on contracts	-	14
Amounts owed by subsidiary undertaking	144	197
Amounts owed by parent undertaking	169	-
Other debtors	299	300
Prepayments and accrued income	3,140	3,016
	30,401	53,650

16 Creditors: amounts falling due within one year

	2008 £000	2007 £000
Shares classified as liabilities (note 19)	130	130
Bank loans (note 17)	11,338	12,769
Trade creditors	6,895	14,772
Amounts owed to subsidiary undertaking	-	6
Corporation tax payable	384	7,013
Other taxation and social security	1,105	5,659
Accruals and deferred income	20,086	38,004
Deferred grant income	446	-
Preference dividend payable	-	12
	40,384	78,365

The above bank loan is stated net of borrowing costs of £240,000 *(2007: £240,000)*.

Notes *(continued)*

17 Creditors: amounts falling due after more than one year

	2008 £000	2007 £000
Shares classified as liabilities (note 19)	**803**	803
Bank loans (see below)	**67,983**	79,324
Accruals and deferred income	**175**	-
Deferred grant income	**7,921**	8,813
	76,882	88,940

The above bank loans are stated net of borrowing costs of £1.656 million *(2007: £1.893 million).*

Bank loans

The maturity profile of the company's bank loans at 31 December was as follows:

	2008 £000	2007 £000
Within one year	**11,338**	12,769
Between one and two years	**8,418**	11,338
Between two and five years	**25,220**	24,086
Over five years	**34,345**	43,900
	79,321	92,093
Analysed as:		
Amounts falling due within one year	**11,338**	12,769
Amounts falling due after more than one year	**67,983**	79,324
	79,321	92,093

The loans attract an interest charge of LIBOR plus 1% to 1.65%, are repayable in instalments by 31 December 2016, and are secured on the assets of the company and its subsidiaries.

The company has issued letters of credit totalling £9.85 million *(2007: £10 million)* as required under the terms of its power trading and fuel purchasing arrangements.

18 Provisions for liabilities

	Carbon provision £000	Deferred taxation £000	Total £000
At beginning of year	3	20,328	20,331
Utilised during year	(1)	-	(1)
Charge to the profit and loss for the year	-	14,008	14,008
At end of year	2	34,336	34,338

Notes *(continued)*

18 Provisions for liabilities *(continued)*

Deferred taxation

The elements of deferred taxation are as follows:

	At beginning of year £000	Profit and loss account (credit)/ charge £000	Amounts included in STRGL £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	20,487	14,030	-	34,517
Other short-term timing differences	(159)	(22)	-	(181)
Provision for liabilities (see above)	20,328	14,008	-	34,336
Pensions (see note 23)	835	467	(226)	1,076
	21,163	14,475	(226)	35,412

19 Called up share capital

	2008 £000	2007 £000
Authorised		
17,000,000 Ordinary shares of £1 each	**17,000**	17,000
14,900,000 1% cumulative redeemable preference shares of £1 each	**14,900**	14,900
	31,900	31,900
Allotted, called up and fully paid		
17,000,000 Ordinary shares of £1 each	**17,000**	17,000
14,900,000 1% cumulative redeemable preference shares of £1 each	**14,900**	14,900
	31,900	31,900
Shares classified as liabilities	**933**	933
Shares classified in shareholders' funds	**30,967**	30,967
	31,900	31,900

The preference shares are valued net of the fair value of the associated dividend stream of £0.933 million *(2007: £0.933 million)* which has been reclassified within creditors. The preference shares are redeemable at par at the option of the company. Profits of the company available for distribution shall be used to pay dividends to the preference shareholders a fixed cumulative preferential dividend of 1 pence per share per annum.

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

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

Notes *(continued)*

20 Reserves

	Capital contribution reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At beginning of year	-	11,191	86,204	97,395
Profit for the year	-	-	26,690	26,690
Dividends on shares classified in shareholders' funds	-	-	(11,139)	(11,139)
Equity settled share based payments	364	-	-	364
Recharge by the ultimate parent undertaking	(270)	-	-	(270)
Actuarial loss recognised in the pension scheme	-	-	(808)	(808)
Deferred tax arising on losses in the pension scheme	-	-	226	226
Reclassification (see below)	376	-	(376)	-
Transfers	-	(291)	291	-
At end of year	**470**	**10,900**	**101,088**	**112,458**

Following a review of the accounting treatment relating to share based payments, the share options granted directly by the ultimate parent undertaking, Sembcorp Industries Limited, have been treated as a capital contribution and the charge recorded in prior years has been reclassified from the profit and loss account. The brought forward reserves have not been restated as this reclassification was not considered to be material.

21 Contingent liabilities

At the end of the year there were contingent liabilities of £8,925,000 in respect of the Big Lottery Fund grant, received for the Wilton 10 Project, which is potentially repayable should the conditions required to receive and retain the grant do not continue to be satisfied. See note 26 for further details relating to events after the balance sheet date.

22 Commitments

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

	2008 £000	2007 £000
Contracted	**6,449**	19,619

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

	2008 Other £000	2007 Other £000
Operating leases which expire:		
Within one year	-	-
In the second to fifth years inclusive	**250**	250
Over five years	-	-
	250	250

Notes *(continued)*

23 Pension scheme

Defined contribution pension scheme

The company operates a defined contribution pension scheme, the Sembcorp Stakeholder Pension Scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £499,000 *(2007: £470,000)*.

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

Defined benefit pension scheme

The company provides pension arrangements to approximately half 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 is closed to new entrants and hence the average age of the active membership is expected to increase over time. This increase in average age will lead to an increase in the current service cost. However, the increase will be mitigated by the reduction in service cost as a result of members leaving service.

The numbers shown below have been based on calculations carried out by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2008. The scheme's assets are stated at their market values at 31 December 2008.

Employer contributions over the accounting period were paid at the rate of 26.4% of Pensionable Pay and amounted to £2.248 million *(2007: £2.381 million)* which includes a special contribution of £0.830 million *(2007: £0.828 million)*. Employer contributions were paid at the rate of 13.0% of Pensionable Pay until March 2008, when the rate was revised to 11.8% of Pensionable Pay. However, due to the salary sacrifice arrangements for employee contributions, the total employer contributions amounted to 16.6% (excluding the special contribution of £0.830 million).

The valuation used for FRS 17 disclosures has been based on a full assessment of the liabilities of the Sembcorp Utilities Teesside Pension Scheme as at 31 March 2008. 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.

	2008	2007
	£000	£000
Present value of funded defined benefit obligations	**(72,835)**	(83,555)
Fair value of plan assets	**76,678**	86,535
	3,843	2,980
Present value of unfunded defined benefit obligations	**-**	-
Surplus	**3,843**	2,980
Related deferred tax liability	**(1,076)**	(835)
Net asset	**2,767**	2,145

Notes *(continued)*

23 Pension schemes *(continued)*

Movements in present value of defined benefit obligation

	2008 £000	2007 £000
At 1 January	**83,555**	85,972
Current service cost	**1,271**	1,443
Interest cost	**4,798**	4,407
Actuarial gains	**(13,943)**	(7,357)
Contributions by members	**91**	70
Benefits paid	**(2,937)**	(980)
At 31 December	**72,835**	83,555

Movements in fair value of plan assets

	2008 £000	2007 £000
At 1 January	**86,535**	79,359
Expected return on plan assets	**5,492**	5,480
Actuarial (losses)/gains	**(14,751)**	225
Contributions by employer	**2,248**	2,381
Contributions by members	**91**	70
Benefits paid	**(2,937)**	(980)
At 31 December	**76,678**	86,535

Expense recognised in the profit and loss account

	2008 £000	2007 £000
Current service cost	**1,271**	1,443
Interest on defined benefit pension plan obligation	**4,798**	4,407
Expected return on defined benefit pension plan assets	**(5,492)**	(5,480)
Total expense relating to the scheme as a whole	**577**	370

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

	2008 £000	2007 £000
Administrative expenses	**1,271**	1,443
Other finance income	**(694)**	(1,073)
	577	370

Notes *(continued)*

23 Pension schemes *(continued)*

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £808,000 loss *(2007: £7,582,000 gain).*

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since the 2003 year end are £9,455,000 *(2007: £10,263,000).*

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

	2008 Fair value £000	2007 Fair value £000
Equities	**30,734**	45,680
Government bonds	**15,605**	21,140
Corporate bonds	**24,610**	13,310
Property	**4,957**	6,390
Other	**772**	15
	76,678	86,535
Expected return on plan assets	**5,492**	5,480
Actuarial (loss)/gain	**(14,751)**	225
Actual return on plan assets	**(9,259)**	5,705

At 31 December 2008, none of the fair value of scheme assets related to self-investment.

Sembcorp Utilities (UK) Limited employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the scheme at 31 December 2008. The total overall expected rate of return for 2007 and 2008 was 6.4% and 5.6% per annum respectively.

The main financial assumptions used by the independent qualified actuaries to calculate the liabilities under FRS 17 were as follows:

	2008 %	2007 %
Discount rate	**6.2**	5.8
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	**2.8**	3.2
- benefits accrued post May 2006	**2.0**	2.4
Future salary increases	**4.3**	4.7
Inflation	**2.8**	3.2

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 21.3 years if they are male and for a further 23.4 years if they are female. For member who retires in 2020 at age 65 the assumptions are that they will live on average for a further 22.5 years after retirement if they are male and for a further 24.2 years after retirement if they are female.

Notes *(continued)*

23 Pension schemes *(continued)*

History of plans

The history of the plans for the current and prior periods is as follows:

Balance sheet

	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Present value of scheme liabilities	**(72,835)**	(83,555)	(85,972)	(87,655)	(70,697)
Fair value of scheme assets	**76,678**	86,535	79,359	68,172	52,661
Surplus/(deficit)	**3,843**	2,980	(6,613)	(19,483)	(18,036)

Experience adjustments

	2008	2007	2006	2005	2004
	£000	£000	£000	£000	£000
Experience adjustments on scheme liabilities	**(169)**	-	597	(141)	(12,681)
Experience adjustments on scheme assets	**(14,751)**	225	2,344	8,502	5,355

The company expects to contribute approximately £2.2 million to its defined benefit plans in the next financial year.

24 Employee share schemes

Share based payments

Share options in the ultimate parent company, Sembcorp Industries Limited ("SCI"), are granted to certain employees within the company. These share options are awarded directly by the ultimate parent undertaking.

The Share Option Plan, Performance Share Plan and Restricted Stock Plan (collectively, the "Share Plans") of SCI were approved and adopted by the shareholders at an Extraordinary General Meeting of SCI held on 5 June 2000.

The Share Plans are intended to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling SCI to give recognition to past contributions and services; as well as motivating participants to contribute to the long-term prosperity of SCI Group.

The Share Option Plan is the incentive scheme for directors and employees of SCI and its subsidiaries ("SCI Group") whereas the Performance Share Plan and Restricted Stock Plan are aimed primarily at key executives of SCI Group.

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

Total expense recognised for share based payments during the year ended 31 December 2008 is £364,000 *(2007: £245,000)*.

Notes *(continued)*

24 Employee share schemes *(continued)*

Share based payments *(continued)*

Other information regarding Share Plans is as follows:

(a) Share Option Plan

The terms and conditions of grants are as follows:

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

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

iii.) In 2008, all options were either settled by the issuance of new shares or by issuance of treasury shares.

iv.) The options granted expire after 5 years for non-executive directors and associated company's employees and 10 years for the employees of SCI Group.

Share options, granted to executives and senior managers of the company, that existed at the end of the year were as follows:

Grant date	No. of shares options at end of year	No. of shares options at beginning of year	Exercise price (S$)*	Exercise period
17 May 2004	**70,500**	93,125	0.99	18 May 2005 - 17 May 2014
22 November 2004	**91,625**	108,250	1.16	23 November 2005 - 22 November 2014
1 July 2005	**126,750**	146,625	2.37	2 July 2006 - 1 July 1015
21 November 2005	**126,750**	148,000	2.36	22 November 2006 - 21 November 2015
9 June 2006	**136,500**	172,500	2.52	10 June 2007 - 9 June 2016
	552,125	668,500		

* The exercise prices for outstanding share options prior to 8 August 2006 were adjusted as a result of SCI's capital reduction and cash distribution exercise in 2006.

The number and weighted average exercise prices of share options in are as follows:

	2008		2007	
	Weighted average exercise price S$	**Number of options**	Weighted average exercise price S$	Number of options
Outstanding at the beginning of the year	**2.02**	**668,500**	2.17	843,750
Granted during the year	**-**	**-**	-	-
Exercised during the year	**1.97**	**(116,375)**	1.96	(175,250)
Outstanding at the end of the year	**2.03**	**552,125**	2.02	668,500
Exercisable at the end of the year	**1.86**	**392,625**	1.84	272,250

Notes *(continued)*

24 Employee share schemes *(continued)*

Share based payments *(continued)*

(a) Share Option Plan *(continued)*

SCI's options were exercised on a regular basis throughout the year. The weighted average share price during the year was S$3.88 *(2007: S$5.42)*.

The options outstanding at the year end have an exercise price in the range of S$0.99 to S$2.52 and a weighted average contractual life of 9 years.

The fair value of the services received is measured using a Binominal model. Measurement inputs and assumptions are as follows:

	1 July 2005	21 November 2005	9 June 2006
Fair value at measurement date	S$0.60	S$0.60	S$0.60
Share price	S$2.71	S$2.71	S$2.93
Exercise price	S$2.68	S$2.67	S$2.83
Expected volatility	29.5% - 32.9%	27.7% - 32.1%	28.2% - 31.4%
Expected option life	2.5 -5.5 years	2.5 - 5.5 years	2.5 -5.5 years
Expected dividends	2.07%	2.07%	2.90%
Risk free interest rate	1.9% - 2.4%	2.7% - 3.2%	2.8% - 3.2%

The expected volatility is based on the historical volatility over the most recent period that commensurate with the expected life of the option.

There are no market conditions associated with the share options grants. Service conditions and non-market performance conditions are not taken into account in the grant date fair value measurement of the services received.

The total expense recognised during the year in relation to this scheme was £3,000 *(2007: £38,000)*.

(b) Performance Share Plan

The terms and conditions of grants are as follows:

i.) Under the Performance Share Plan, the awards granted conditional on performance targets are set based on medium-term corporate objectives at the start of each rolling three-year performance qualifying period. A specific number of performance shares shall be awarded at the end of the three-year performance cycle depending on the extent of the achievement of the performance conditions established at the onset.

ii.) The performance shares were calibrated based on Wealth Added and Total Shareholder Return. For each performance measure, three distinct performance levels were set. A minimum of threshold performance must be achieved to trigger an Achievement Factor, which in turn determines the number of shares to be finally awarded. Performance shares to be delivered will range between 0% to 150% of the conditional performance shares awarded.

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

Notes *(continued)*

24 Employee share schemes *(continued)*

Share based payments *(continued)*

(b) Performance Share Plan *(continued)*

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

Award year	No. of shares at end of year	No. of shares at beginning of year
2005	-	53,479
2006	**85,649**	85,649
2007	**81,648**	81,648
2008	**80,000**	-
	247,297	220,776

The details of performance shares awarded during the year were as follows:

	2008 Number	2007 Number
Outstanding at the beginning of the year	**220,776**	136,320
Conditional shares awarded during the year	**80,000**	84,456
Conditional shares awarded due to modification	**26,740**	-
Conditional shares released	**(80,219)**	-
Outstanding at the end of the year	**247,297**	220,776

The fair value of the services received is measured using a Monte Carlo simulation model at the grant date. Measurement inputs and assumptions are as follows:

	2006	2007	2008
Fair value at measurement date	S$2.32	S$5.35	S$2.08
Assumptions under the Monte Carlo model:			
Share price	S$3.24	S$5.50	S$4.26
Expected volatility:			
- Sembcorp Industries Limited	23.7%	25.5%	32.4%
- Morgan Stanley Capital International ("MSCI") AC Asia Pacific excluding Japan Industrials Index	13.8%	12.9%	21.9%
Correlation with MSCI	20.0%	40.1%	60.6%
Risk free interest rate	3.3%	2.5%	1.1%
Expected dividends	2.9%	3.2%	4.7%

The expected volatility is based on the historical volatility over the most recent period that commensurate with the expected life of the performance shares.

The total expense recognised during the year in relation to this scheme was £153,000 *(2007: £82,000)*.

Notes *(continued)*

24 Employee share schemes *(continued)*

Share based payments *(continued)*

(c) Restricted Stock Plan

From 2007, share option grant was ceased and entirely replaced with restricted stocks award of an equivalent fair value.

Under the Restricted Stock Plan, the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria are set and performance levels for the restricted stocks are calibrated based on Return on Total Assets and Total Shareholder Return. For awards granted before 2008, three distinct performance levels are set for each performance measure. A minimum threshold performance must be achieved to trigger an Achievement Factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted stocks to be delivered will range from 0% to 130% of the conditional restricted stocks awarded.

For awards granted in 2008, four distinct performance levels are set for each performance measure. A minimum threshold performance must be achieved to trigger an Achievement Factor, which in turn determines the number of shares to be finally awarded. Based on the criteria, restricted stocks to be delivered will range from 0% to 150% of the conditional restricted stocks awarded.

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

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

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

Award year	No. of shares at end of year	No. of shares at beginning of year
2006	**37,969**	51,473
2007	**116,653**	130,737
2008	**157,200**	-
	311,822	182,210

The total number of restricted stocks in awards granted conditionally and representing 100% of targets achieved, but not released as at end 2008, was 311,822. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 425,418 restricted stocks.

Notes *(continued)*

24 Employee share schemes *(continued)*

Share based payments *(continued)*

(c) Restricted Stock Plan *(continued)*

The details of restricted stocks awarded during the year were as follows:

	2008 Number	2007 Number
Outstanding at the beginning of the year	**182,210**	50,432
Granted during the year	**157,200**	128,384
Granted during the year due to modification	**15,441**	3,394
Lapsed during the year	**(43,029)**	-
Outstanding at the end of the year	**311,822**	182,210

The fair value of the services received is measured using a Monte Carlo simulation model at the grant date. Measurement inputs and assumptions are as follows:

	2006	2007	2008
Fair value at measurement date	S$2.61	S$4.79	S$3.07
Assumptions under the Monte Carlo model:			
Share price	S$2.93	S$5.50	S$4.26
Expected volatility:			
- Sembcorp Industries Limited	25.5%	25.5%	32.4%
- Straits Time Index ("STI")	10.6%	10.2%	15.9%
Correlation with STI	45.83%	49.5%	69.7%
Risk free interest rate	2.8% - 3.1%	2.4% - 2.6%	0.9% - 1.3%
Expected dividends	2.9%	3.2%	4.7%

The expected volatility is based on the historical volatility over the most recent period that commensurate with the expected life of the restricted shares.

The total expense recognised during the year in relation to this scheme was £208,000 *(2007: £125,000).*

25 Derivative financial instruments

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

	2008		2007	
	Assets £000	**Liabilities £000**	Assets £000	Liabilities £000
Commodity contracts	**15,205**	**(13,210)**	-	(9,480)
Forward foreign currency exchange contracts	**-**	**(592)**	423	(53)
Interest rate swaps	**-**	**(3,232)**	846	-
	15,205	**(17,034)**	1,269	(9,533)

Notes *(continued)*

25 Derivative financial instruments *(continued)*

Commodity contracts

The company is potentially exposed to commodity price risk, in particular to movements in power prices. The company seeks to manage its exposure to commodity price risk by entering into fixed price contracts where this is appropriate. As a result, exposures to changes in commodity prices are satisfactorily managed.

Forward foreign currency exchange contracts

The company's capital programme includes a significant element of capital purchases which are denominated in US Dollars and Euros. The company seeks to mitigate the effect of its currency exposures by fixing the exchange rates of foreign currencies at the time contracts are entered into for all material foreign currency contracts. As a result the company believes that it has effectively managed its exposure to foreign currency risks to a minimal level as at the balance sheet date.

Interest rate swaps

The company's policy is to manage its cost of borrowing predominantly through fixed rate debt. The company uses interest rate swaps agreed with other parties to generate the desired interest profile, agreeing to exchange, at specified intervals, the difference between fixed rate and variable interest amounts calculated by reference to an agreed-upon notional principal. At the year end, 67% *(2007: 63%)* of the company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this given the company's high cash balance.

The company does not trade in financial instruments or enter into speculative commodity transactions.

26 Post balance sheet events

The revised Renewables Obligation legislation came into force on 1 April 2009, which now allows the company to earn an additional 0.5 ROC per megawatt hour of power generation from its biomass boiler. However, the revised legislation stipulates that if the company previously received a related grant then this must be repaid in order to receive the additional ROC. After careful consideration, and whilst there were no other requirements to repay the grant, the directors took a commercial decision to voluntarily repay the grant in March 2009 in order to access the additional ROCs going forward.

In April 2009 one of the company's larger customers served notice upon the company to end both the Asset Management and Business Park Services contracts. The notice periods, in respect of the Asset Management and the Business Park Services contracts, are due to end in March 2010.

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

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

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