

Sembcorp Utilities (UK) Limited

**Directors' report and financial
statements**

Registered number 4636301

31 December 2011



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Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2011

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. The principal 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 and the previous year are as follows

	2011 £000	2010 £000
Turnover	145,797	153,684
Gross profit	16,236	14,253
Operating profit	11,275	11,185
Profit for the financial year	8,483	8,497
Operating profit margin	8%	7%

The directors are satisfied with the results for the year given the difficult trading conditions. Very weak spreads within the UK wholesale power market have continued into 2011, which has been compounded by a drop in the value of surplus carbon allowances across the year. These market driven factors have significantly reduced revenue and profitability in 2011.

At Wilton, the new bio ethanol plant owned by Ensus continued to run during the first half of 2011. In May 2011 Ensus announced temporary shutdown and this continued for the remainder of the year. This resulted in a reduced demand for steam and power, putting further downward pressure on revenue and profitability.

The Wilton 10 biomass boiler continues to deliver green generation benefits, and is a key strategic asset to the company, delivering strong profitability, with further investment having been made as part of a project to convert it to a Combined Heat and Power status to improve flexibility and efficiency. This project is still underway, however benefits are already being derived from it.

The Industrial Parks Services business and the other onsite Asset Management Services business continue to deliver a profitable contribution to the overall business performance.

The balance sheet as at 31 December 2011 remains strong although net assets have reduced to £155.3 million (2010 £156.1 million). This is primarily due to net losses of £3,303,000 in respect of the pension scheme and a dividend payment of £5,708,000 which have been recorded directly in equity.

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, operating profit margin percentage, earnings before interest and taxation (EBIT) and return on total assets (ROTA).

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. This reliance has been reduced in part over the past 5 years with investment into assets such as the Wilton 10 biomass project and the recent 50MW condensing turbine.

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 remain confident that the company will maintain a satisfactory level of performance in the future. The company's commitment to build a new 50MW steam turbine will strengthen the company's asset and cost base. The new steam turbine has been taken over in February 2012. In addition an ongoing programme of asset efficiency improvements and existing customer initiatives to improve flexibility and reliability will deliver further operational and financial benefits.

The company is also working in partnership with a recycling and resource management company, SITA, and is in competitive discussions which could lead to a circa 400,000 tonnes energy-from-waste facility at Wilton.

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 an 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, 68% (2010 69%) of the company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this split 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 speculative trading in derivative financial instruments shall be undertaken.

Dividend

Dividends paid during the year comprise a final ordinary dividend of £3,356,600 and a preference dividend of £149,000 in respect of the previous year ended 31 December 2010, plus an interim ordinary dividend of £2,351,000 and a preference dividend of £149,000 in respect of the year ended 31 December 2011.

The directors do not recommend the payment of a final dividend in respect of the year ended 31 December 2011.

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 27 days (2010 42 days)

Directors

The directors who held office during the year were as follows

P D Gavens	(resigned 31 December 2011)
D S Annan	(appointed 31 December 2011)
Tang Kin Fei	
Tan Cheng Guan	
Ng Meng Poh	

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 £13,000 (2010 £7,000)

Disclosure of information to auditor

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

Directors' report *(continued)*

Auditor

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

By order of the board



D S Annan
Director

Sembcorp UK Headquarters
Wilton International
Middlesbrough
Cleveland
TS90 8WS

14 June 2012

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)

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 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 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 have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

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



KPMG LLP

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Newcastle upon Tyne
NE1 3DX
United Kingdom

Independent auditor's 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 2011 set out on pages 9 to 36. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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 set out on page 6, 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 (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/private.cfm

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 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

M.R. Thompson

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

22 June 2012

Profit and Loss Account
for the year ended 31 December 2011

	<i>Note</i>	2011 £000	2010 £000
Turnover	2	145,797	153,684
Cost of sales - <i>including exceptional costs of £nil (2010 £9,418,000)</i>	3	(129,561)	(139,431)
Gross profit		16,236	14,253
Administrative expenses		(6,762)	(4,593)
Other operating income	3	1,801	1,525
Operating profit		11,275	11,185
Profit on sale of fixed assets		398	-
Other interest receivable and similar income	6	56	68
Other finance income	7	214	57
Interest payable and similar charges	8	(3,570)	(3,907)
Profit on ordinary activities before taxation	3-5	8,373	7,403
Tax on profit on ordinary activities	9	110	1,094
Profit for the financial year	20	8,483	8,497

All of the results above derive from continuing activities

Balance Sheet
at 31 December 2011

	<i>Note</i>	2011	2010
		£000	£000
Fixed assets			
Negative goodwill	11	(3,883)	(4,500)
Intangible assets	11	-	-
Tangible assets	12	218,857	222,075
Investments	13	-	-
		214,974	217,575
Current assets			
Stocks	14	14,206	20,253
Debtors	15	20,608	22,140
Cash at bank and in hand		18,351	21,765
		53,165	64,158
Creditors: amounts falling due within one year	16	(31,216)	(37,019)
Net current assets		21,949	27,139
Total assets less current liabilities		236,923	244,714
Creditors: amounts falling due after more than one year	17	(44,691)	(52,497)
Provisions for liabilities	18	(32,737)	(34,889)
Net assets excluding pension liabilities		159,495	157,328
Pension liabilities	22	(4,192)	(1,267)
Net assets including pension liabilities		155,303	156,061
Capital and reserves			
Called up share capital	19	30,967	30,967
Revaluation reserve	20	10,866	10,900
Capital contribution reserve	20	387	617
Profit and loss account	20	113,083	113,577
Shareholders' funds		155,303	156,061

These financial statements were approved by the board of directors on 14 June 2012 and were signed on its behalf by



D S Annan
Director

Company registered number 4636301

Statement of Total Recognised Gains and Losses
for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the financial year	8,483	8,497
Actuarial (loss)/gain recognised in the pension scheme	(4,368)	1,547
Deferred tax arising on losses/gains in the pension scheme	1,158	(433)
Effect of reduced deferred tax rate on closing pension deficit	(93)	(17)
Total recognised gains and losses relating to the financial year	5,180	9,594

Note of Historical Cost Profits and Losses
for the year ended 31 December 2011

	2011 £000	2010 £000
Reported profit on ordinary activities before taxation	8,373	7,403
Realisation of property revaluation gains of previous years	34	-
Historical cost profit on ordinary activities before taxation	8,407	7,403
Historical cost profit for the year retained after taxation and dividends	2,809	346

Reconciliation of Movements in Shareholders' Funds
for the year ended 31 December 2011

	2011 £000	2010 £000
Profit for the financial year	8,483	8,497
Dividends on shares classified in shareholders' funds	(5,708)	(8,151)
Retained profit	2,775	346
Net gains and losses in respect of FRS 17	(3,303)	1,097
Net (charge)/credit in relation to share based payments	(230)	7
Net (reduction in)/addition to shareholders' funds	(758)	1,450
Opening shareholders' funds	156,061	154,611
Closing shareholders' funds	155,303	156,061

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

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

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 the company is a wholly owned subsidiary of Sembcorp Industries Limited, the company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group. The consolidated financial statements of Sembcorp Industries Limited, within which this company is included, can be obtained from the address given in note 25.

Going concern

The company's business activities, together with the factors likely to affect its future development, performance and position are set out in the 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.

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 estimated recoverable value. 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 pensionable pay. The scheme has been closed to new members since January 1999. The scheme closed to future accrual with effect from 31 March 2010 and for active members of the scheme the link to salary was removed. 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

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.

Renewable Obligation 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.

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.

Notes (continued)

1 Accounting policies (continued)

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

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

Notes (continued)

1 Accounting policies (continued)

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

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

	2011 £000	2010 £000
<i>Profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	14,168	25,199
Leased	8	8
Hire of plant and machinery	690	466
Hire of other assets - operating leases	143	205
Restructuring costs	29	85
Management fees charged by parent undertaking	610	593
Operating lease rentals receivable - land and buildings	(1,801)	(1,525)
Amortisation of negative goodwill	(617)	(617)
Profit on disposal of tangible fixed assets	(398)	-

The depreciation charge in 2010 included £9.4 million in respect of assets written down to £nil as these were no longer considered by the directors to be reliable due to operational efficiency.

The restructuring costs relate to discretionary release payments made available to those employees who agreed to leave their employment with the company.

The company's defined benefit scheme closed to future accrual with effect from 31 March 2010 and for active members of the scheme the link to salary was removed. As such, there was a reduction in the benefit obligation and this resulted in a curtailment gain of £5.4 million in 2010.

Auditor's remuneration

	2011 £000	2010 £000
Audit of these financial statements	87	84
Amounts receivable by the auditor and its associates in respect of		
All other services	7	6

Notes (continued)

4 Remuneration of directors

	2011 £000	2010 £000
Directors' emoluments	256	293

The aggregate emoluments of the highest paid director were £256,000 (2010 £283,000). He was a member of a defined benefit scheme, under which his accrued pension at the year end was £77,000 (2010 £126,000).

	Number of directors	
	2011	2010
Retirement benefits are accruing to the following number of directors under		
Defined benefit schemes	-	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	
	2011	2010
Operating	316	335
Administration	82	84
	398	419

The aggregate payroll costs of these persons were as follows:

	2011 £000	2010 £000
Wages and salaries	14,545	16,429
Share based payments (note 23)	282	295
Social security costs	1,617	1,567
Other pension costs/(income) (note 22)	1,320	(3,929)
	17,764	14,362

6 Other interest receivable and similar income

	2011 £000	2010 £000
Bank interest receivable	56	68

Notes (continued)

7 Other finance income

	2011 £000	2010 £000
Expected return on pension scheme assets	4,975	4,966
Interest on pension scheme liabilities	(4,761)	(4,909)
	<u>214</u>	<u>57</u>

8 Interest payable and similar charges

	2011 £000	2010 £000
On bank loans	3,398	3,717
On amounts payable to group undertakings	23	41
Finance costs on shares classified as liabilities	149	149
	<u>3,570</u>	<u>3,907</u>

The bank loan interest above includes amortisation of deferred fees of £240,000 relating to the bank loan (2010 £240,000)

9 Taxation

Analysis of credit in period

	2011 £000	2010 £000
<i>UK corporation tax</i>		
Current tax on income for the period	1,817	1,546
Adjustments in respect of prior periods	(161)	(2,214)
Total current tax	<u>1,656</u>	<u>(668)</u>
<i>Deferred tax (see note 18)</i>		
Origination of timing differences	552	753
Effect of reduction in tax rate	(2,610)	(1,283)
Adjustment in respect of previous years	292	104
Total deferred tax	<u>(1,766)</u>	<u>(426)</u>
Tax on profit on ordinary activities	<u>(110)</u>	<u>(1,094)</u>

Notes (continued)

9 Taxation (continued)

For the year ended 31 December 2011, the company was subject to UK corporation tax at a rate of 28% during the 3 months to 31 March 2011 and 26% from 1 April 2011 to 31 December 2011, giving an average rate for the year of 26.5% (2010 28%)

Factors affecting the tax charge for the current period

The current tax charge for the period is lower (2010 lower) than the standard rate of corporation tax in the UK, 26.5% (2010 28%). The differences are explained below

	2011 £000	2010 £000
<i>Current tax reconciliation</i>		
Profit on ordinary activities before tax	8,373	7,403
	<hr/>	<hr/>
Current tax at 26.5% (2010 28%)	2,219	2,073
<i>Effects of</i>		
Finance charge on shares classified as liabilities	39	42
Expenses not deductible for tax purposes and other permanent differences	4	184
Chargeable gains	107	-
Capital allowances for period (in excess of)/less than depreciation	(421)	1,039
Other short term timing differences	(131)	(1,792)
Adjustments to tax charge in respect of previous periods	(161)	(2,214)
	<hr/>	<hr/>
Total current tax charge/(credit) (see above)	1,656	(668)
	<hr/>	<hr/>

Factors that may affect future current and total tax charges

The main rate of UK corporation tax changed from 28% to 26% on 1 April 2011. A further reduction in the main rate of UK corporation tax, to 25% with effect from 1 April 2012, became substantively enacted in July 2011 and therefore the effect of this further rate reduction on the deferred tax liability as at 31 December 2011 has been included in the figures above.

In March 2012 the Chancellor announced a further reduction in the main rate of UK corporation tax to 24% with effect from 1 April 2012. This change became substantively enacted on 26 March 2012 and therefore the effect of the rate change would create an additional reduction in the deferred tax liability at 31 December 2011 of approximately £1,254,000. This has not been reflected in the figures above as it was not substantively enacted at the balance sheet date.

The Chancellor has also proposed changes to further reduce the main rate of corporation tax by one per cent per annum to 22% by 1 April 2014, but these changes have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the reductions from 24% to 22%, if these applied to the deferred tax liability at 31 December 2011, would be to further reduce the deferred tax liability by approximately £2,507,000.

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 £2,509,000 (2010 £2,892,000). 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

	2011 £000	2010 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	3,357	8,151
Interim dividends paid in respect of the current year	2,351	-
	<hr/>	<hr/>
Aggregate amount of dividends paid in the financial year	5,708	8,151
Dividends in respect of the year recognised as a liability at the year end	-	-
	<hr/>	<hr/>
	5,708	8,151
	<hr/>	<hr/>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil (2010 £3,356,600)

11 Intangible fixed assets

	Carbon trading certificates £000	Negative goodwill £000
Cost		
At beginning and end of year	-	(9,241)
	<hr/>	<hr/>
Amortisation		
At beginning of year	-	4,741
Credited in year	-	617
	<hr/>	<hr/>
At end of year	-	5,358
	<hr/>	<hr/>
Net book value		
At 31 December 2011	-	(3,883)
	<hr/>	<hr/>
At 31 December 2010	-	(4,500)
	<hr/>	<hr/>

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	15,458	14,397	257,543	1,268	26,581	315,247
Additions	-	-	-	-	11,005	11,005
Disposals	(47)	-	(1)	-	-	(48)
Transfers between items	-	-	14,490	-	(14,490)	-
At end of year	15,411	14,397	272,032	1,268	23,096	326,204
Depreciation						
At beginning of year	-	2,507	89,999	666	-	93,172
Charge for year	-	471	13,641	64	-	14,176
On disposals	-	-	(1)	-	-	(1)
At end of year	-	2,978	103,639	730	-	107,347
Net book value						
At 31 December 2011	15,411	11,419	168,393	538	23,096	218,857
At 31 December 2010	15,458	11,890	167,544	602	26,581	222,075

Included within land and buildings is long leasehold land of £574,000 (2010 £582,000). The remaining land and buildings are freehold. Plant and equipment as at 31 December 2011 include capitalised interest of £1 483 million (2010 £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

	2011 £000	2010 £000
On open market basis 30 November 2007	15,411	15,458
Aggregate depreciation thereon	-	-
Net book value	15,411	15,458
Historical cost of revalued assets	4,545	4,558
Aggregate depreciation thereon	-	-
Historical cost net book value	4,545	4,558

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.

Notes (continued)

13 Fixed asset investments

	Shares in group undertaking £
<i>Cost and net book value</i>	
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

14 Stocks

	2011 £000	2010 £000
Raw materials	6,049	11,655
Engineering spares	4,276	4,043
Renewable obligation certificates	3,881	4,555
	<u>14,206</u>	<u>20,253</u>

15 Debtors

	2011 £000	2010 £000
Trade debtors	15,758	17,663
Amounts owed by subsidiary undertaking	1,200	-
Corporation tax recoverable	-	964
Prepayments and accrued income	3,650	3,513
	<u>20,608</u>	<u>22,140</u>

16 Creditors: amounts falling due within one year

	2011 £000	2010 £000
Shares classified as liabilities (note 19)	130	130
Bank loans (note 17)	7,803	7,865
Trade creditors	7,648	11,604
Amounts owed to group undertakings	-	96
Corporation tax payable	450	-
Other taxation and social security	2,066	947
Accruals and deferred income	13,119	16,377
	<u>31,216</u>	<u>37,019</u>

The above bank loan is stated net of borrowing costs of £240,000 (2010 £240,000)

Notes (continued)

17 Creditors: amounts falling due after more than one year

	2011 £000	2010 £000
Shares classified as liabilities (note 19)	803	803
Bank loans (see below)	43,888	51,694
	<u>44,691</u>	<u>52,497</u>

The above bank loans are stated net of borrowing costs of £0.945 million (2010 £1.179 million)

Bank loans

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

	2011 £000	2010 £000
Within one year	7,803	7,865
Between one and two years	9,552	7,803
Between two and five years	34,336	31,762
Over five years	-	12,129
	<u>51,691</u>	<u>59,559</u>
<i>Analysed as</i>		
Amounts falling due within one year	7,803	7,865
Amounts falling due after more than one year	43,888	51,694
	<u>51,691</u>	<u>59,559</u>

The loans attract an interest charge of LIBOR plus 1% to 1.90%, 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 (2010 £9.85 million) as required under the terms of its power trading and fuel purchasing arrangements

18 Provisions for liabilities

	Carbon provision £000	Deferred taxation £000	Restructuring provision £000	Total £000
At beginning of year	-	34,639	250	34,889
Utilised during year	-	-	(279)	(279)
Credit to the profit and loss for the year (see below)	-	(1,902)	29	(1,873)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
At end of year	-	32,737	-	32,737

Notes (continued)

18 Provisions for liabilities (continued)

The restructuring provision related to discretionary release payments made available to those employees who agreed to leave their employment with the company. Further information on the deferred tax is given below.

Deferred taxation

The elements of deferred taxation are as follows:

	At beginning of year £000	Profit and loss account credit £000	Amounts included in STRGL £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	34,758	(1,906)	-	32,852
Other short-term timing differences	(119)	4	-	(115)
	<hr/>	<hr/>	<hr/>	<hr/>
Provision for liabilities (see above)	34,639	(1,902)	-	32,737
Pensions (see note 22)	(469)	136	(1,065)	(1,398)
	<hr/>	<hr/>	<hr/>	<hr/>
	34,170	(1,766)	(1,065)	31,339
	<hr/>	<hr/>	<hr/>	<hr/>

19 Called up share capital

	2011 £000	2010 £000
<i>Allotted, called up and fully paid</i>		
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
	<hr/>	<hr/>
	31,900	31,900
	<hr/>	<hr/>
Shares classified as liabilities	933	933
Shares classified in shareholders' funds	30,967	30,967
	<hr/>	<hr/>
	31,900	31,900
	<hr/>	<hr/>

The preference shares are valued net of the fair value of the associated dividend stream of £0.933 million (2010 £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	617	10,900	113,577	125,094
Profit for the year	-	-	8,483	8,483
Dividends on shares classified in shareholders' funds	-	-	(5,708)	(5,708)
Equity settled share based payments	282	-	-	282
Recharge by the ultimate parent undertaking	(512)	-	-	(512)
Actuarial loss recognised in the pension scheme	-	-	(4,368)	(4,368)
Deferred tax arising on losses in the pension scheme	-	-	1,065	1,065
Transfers	-	(34)	34	-
At end of year	387	10,866	113,083	124,336

Certain employees of the company are eligible for share options and stock awards in the ultimate parent undertaking, Sembcorp Industries Limited. These share options are awarded directly by the ultimate parent undertaking, which requires the company to make a payment to reimburse it for the granting of these rights. Further details in respect of the share-based payment plans are included in note 23.

21 Commitments

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

	2011 £000	2010 £000
Contracted	4,528	16,456

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

	2011 Other £000	2010 Other £000
Operating leases which expire		
Within one year	14	122
In the second to fifth years inclusive	66	22
Over five years	13	-
	93	144

Notes (continued)

22 Pension scheme

Defined contribution pension scheme

The company operates a defined contribution pension scheme, the Sembcorp Stakeholder Pension Scheme. The pension cost charge for the period represents contributions payable by the company to the scheme and amounted to £1,320,000 (2010 £1,162,000).

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

Defined benefit pension scheme

The company provides pension arrangements to approximately one third of full time employees through a defined benefit scheme, the Sembcorp Utilities Teesside Pension Scheme, and the related costs are assessed in accordance with the advice of professionally qualified actuaries. The pension scheme is funded by the payment of contributions to separately administered trust funds.

The scheme has been closed to new members since January 1999. The scheme closed to future accrual with effect from 31 March 2010 and for active members of the scheme the link to salary was removed. As such, there was a reduction in the benefit obligation and this was reflected as a curtailment gain in 2010. Active members are entitled to join the Sembcorp Stakeholder Pension Scheme.

The numbers shown below have been based on calculations carried out by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2011. The scheme's assets are stated at their market values at 31 December 2011.

Employer contributions over the accounting period amounted to £300,000 (2010 £1,215,000) which includes deficit contributions of £300,000 (2010 £975,000). Employer contributions were paid at the rate of 13.1% of Pensionable Pay until 31 March 2010. However, due to the salary sacrifice arrangements for employee contributions, the total employer contributions in 2010 amounted to 18.17% (excluding the deficit contributions of £975,000). With effect from 31 March 2010 the defined benefit pension scheme was closed to future accrual.

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 2011. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

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

	2011 £000	2010 £000
Present value of funded defined benefit obligations	(93,550)	(89,357)
Fair value of plan assets	87,960	87,621
	<hr/>	<hr/>
	(5,590)	(1,736)
Present value of unfunded defined benefit obligations	-	-
	<hr/>	<hr/>
Deficit	(5,590)	(1,736)
Related deferred tax asset	1,398	469
	<hr/>	<hr/>
Net liability	(4,192)	(1,267)
	<hr/>	<hr/>

Notes (continued)

22 Pension schemes (continued)

Movements in present value of defined benefit obligation

	2011 £000	2010 £000
At 1 January	(89,357)	(92,737)
Current service cost	-	(309)
Interest cost	(4,761)	(4,909)
Curtailment gain	-	5,400
Actuarial losses	(3,877)	(2,303)
Contributions by members	-	(20)
Benefits paid	4,445	5,521
	<hr/>	<hr/>
At 31 December	(93,550)	(89,357)
	<hr/>	<hr/>

Movements in fair value of plan assets

	2011 £000	2010 £000
At 1 January	87,621	83,091
Expected return on plan assets	4,975	4,966
Actuarial (losses)/gains	(491)	3,850
Contributions by employer	300	1,215
Contributions by members	-	20
Benefits paid	(4,445)	(5,521)
	<hr/>	<hr/>
At 31 December	87,960	87,621
	<hr/>	<hr/>

Income/(expense) recognised in the profit and loss account

	2011 £000	2010 £000
Current service cost	-	(309)
Gains on curtailment	-	5,400
Interest on defined benefit pension plan obligation	(4,761)	(4,909)
Expected return on defined benefit pension plan assets	4,975	4,966
	<hr/>	<hr/>
Total income relating to the scheme as a whole	214	5,148
	<hr/>	<hr/>

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

	2011 £000	2010 £000
Cost of sales	-	4,073
Administrative expenses	-	1,018
Other finance income	214	57
	<hr/>	<hr/>
	214	5,148
	<hr/>	<hr/>

Notes (continued)

22 Pension schemes (continued)

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £4,368,000 loss (2010 £1,547,000 gain)

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since the 2003 year end are £7,271,000 loss (2010 £2,903,000 loss)

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

	2011 Fair value £000	2010 Fair value £000
Equities	32,148	34,080
Government bonds	17,975	18,017
Corporate bonds	28,729	26,445
Property	8,347	7,864
Other	761	1,215
	<hr/> 87,960 <hr/>	<hr/> 87,621 <hr/>
Expected return on plan assets	4,975	4,966
Actuarial (loss)/gain	(491)	3,850
	<hr/>	<hr/>
Actual return on plan assets	4,484	8,816
	<hr/>	<hr/>

At 31 December 2011, 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 2011. The total overall expected rate of return for 2010 and 2011 was 5.9% and 5.7% per annum respectively.

The principal assumptions (expressed as weighted averages) used by the independent qualified actuaries to calculate the liabilities under FRS 17 were as follows:

	2011 %	2010 %
Discount rate	4.7	5.5
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	2.9	3.3
- benefits accrued post May 2006	2.1	2.2
Future salary increases	-	-
RPI Inflation	3.0	3.5
CPI Inflation	2.0	2.8
	<hr/>	<hr/>

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 21.2 years if they are male and for a further 24.1 years if they are female. For members who retire in 2027 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 26.0 years after retirement if they are female.

Notes (continued)

22 Pension schemes (continued)

History of plans

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

Balance sheet

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Present value of scheme liabilities	(93,550)	(89,357)	(92,737)	(72,835)	(83,555)
Fair value of scheme assets	87,960	87,621	83,091	76,678	86,535
(Deficit)/surplus	(5,590)	(1,736)	(9,646)	3,843	2,980

Experience adjustments

	2011 £000	2010 £000	2009 £000	2008 £000	2007 £000
Experience adjustments on scheme liabilities	2,448	(149)	410	(169)	-
Experience adjustments on scheme assets	(491)	3,850	5,567	(14,751)	225

With effect from 31 March 2010 the defined benefit pension scheme was closed to future accrual. The company only expects to contribute £300,000, in deficit contributions, in the next financial year.

23 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.

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

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

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

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

Notes (continued)

23 Employee share schemes (continued)

Share based payments (continued)

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

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

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

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

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

Total expense recognised for share based payments during the year ended 31 December 2011 is £282,000 (2010 £295,000).

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

(a) Share Option Plan

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

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

- i) The exercise price of the options can be set at market price or a discount to the market price not exceeding 20% of the market price in respect of options granted at the time of grant. Market price is the volume-weighted average price for the shares on the Singapore Exchange 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 2011 and 2010, all options were settled by the issuance of treasury shares.
- iv) The options granted expire after 5 years for non-executive directors and associated company's employees and 10 years for the employees of SCI Group.

Notes (continued)

23 Employee share schemes (continued)

Share based payments (continued)

(a) Share Option Plan (continued)

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	61,000	70,500	0.99	18 May 2005 - 17 May 2014
22 November 2004	61,000	75,000	1.16	23 November 2005 - 22 November 2014
1 July 2005	81,000	105,500	2.37	2 July 2006 - 1 July 2015
21 November 2005	93,000	117,500	2.36	22 November 2006 - 21 November 2015
9 June 2006	93,000	129,000	2.52	10 June 2007 - 9 June 2016
	389,000	497,500		

* 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

	2011		2010	
	Weighted average exercise price S\$	Number of options	Weighted average exercise price S\$	Number of options
Outstanding at the beginning of the year	2.03	497,500	2.05	536,875
Granted during the year	-	-	-	-
Transferred out	2.52	(6,000)	-	-
Exercised during the year	2.12	(102,500)	2.28	(39,375)
Outstanding at the end of the year	2.00	389,000	2.03	497,500
Exercisable at the end of the year	2.00	389,000	2.03	497,500

Share options exercised in 2011 and 2010 were all settled by way of issuance of treasury shares by SCI. Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was S\$4.65 (2009: S\$4.26).

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.

Notes (continued)

23 Employee share schemes (continued)

Share based payments (continued)

(a) Share Option Plan (continued)

The fair value of the services received is measured using a Binomial 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 is 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 £nil (2010: £1,000).

(b) Performance Share Plan

The terms and conditions of grants are as follows:

- i) Under the Performance Share Plan ("SCI PSP 2010"), 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 levels were calibrated based on Wealth Added and Total Shareholder Return. A minimum 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) To create alignment between senior management and other employees at the time of vesting, SCI PSP 2010 has in place a plan trigger. Under this trigger mechanism, the performance shares for the performance period 2011 to 2013 will be vested to the senior management participants only if the restricted stocks for the performance period 2012 to 2013 are vested, subject to the achievement of the performance conditions for the respective performance periods.
- iv) Senior management participants are required to hold a minimum percentage of the shares released to them under the 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.

Notes (continued)

23 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
2008	-	80,000
2009	80,000	80,000
2010	80,000	80,000
2011	-	-
	<u>160,000</u>	<u>240,000</u>

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

	2011 Number	2010 Number
Outstanding at the beginning of the year	240,000	241,648
Conditional shares awarded during the year	-	80,000
Conditional shares released	(60,000)	(28,577)
Lapsed during the year	(20,000)	(53,071)
Outstanding at the end of the year	<u>160,000</u>	<u>240,000</u>

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

	2008	2009	2010
Fair value at measurement date	<u>S\$2.08</u>	<u>S\$2.14</u>	<u>S\$2.71</u>
<i>Assumptions under the Monte Carlo model</i>			
Share price	S\$4.26	S\$2.67	S\$4.19
Expected volatility			
- Sembcorp Industries Limited	32.4%	39.9%	32.1%
- Morgan Stanley Capital International ("MSCI") AC Asia Pacific excluding Japan Industrials Index	21.9%	33.9%	22.4%
Correlation with MSCI	60.6%	77.5%	80.7%
Risk free interest rate	1.1%	0.7%	0.7%
Expected dividends	4.7%	5.8%	3.8%

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 £64,000 (2010 £90,000)

Notes (continued)

23 Employee share schemes (continued)

Share based payments (continued)

(c) Restricted Stock Plan

Under the Restricted Stock Plan (SCI RSP 2010), the awards granted conditional on performance targets are set based on corporate objectives at the start of each rolling two-year performance qualifying period. The performance criteria for the restricted stocks are calibrated based on Return on Total Assets and Group Profit from Operations for awards granted in 2011.

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.

The managerial participants of the Group will be awarded restricted stocks under SCI RSP 2010, while the non-manual participants of the Group will receive their awards in an equivalent cash value. This cash-settled notional restricted stocks award for non-manual participants is known as the Sembcorp Challenge Bonus.

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-manual 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 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
2007	-	19,169
2008	37,396	86,236
2009	102,640	145,800
2010	133,300	150,800
2011	135,600	-
	<hr/>	<hr/>
	408,936	402,005
	<hr/>	<hr/>

The total number of restricted stocks outstanding, including awards achieved but not released, as at end 2011, was 408,936. Of this, the total number of restricted stocks in awards granted conditionally and representing 100% of targets to be achieved, but not released was 268,900. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 403,350 restricted stocks.

In 2011, an additional 26,400 restricted stocks were awarded for the over-achievement of the performance targets for the performance period 2009.

Notes (continued)

23 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

	2011 Number	2010 Number
Outstanding at the beginning of the year	402,005	374,428
Granted during the year	135,600	150,800
Granted during the year due to modification	26,400	4,375
Transferred out	(39,667)	-
Released during the year	(111,702)	(118,754)
Lapsed during the year	(3,700)	(8,844)
	<hr/>	<hr/>
Outstanding at the end of the year	408,936	402,005
	<hr/>	<hr/>

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

	2007	2008	2009	2010	2011
Fair value at measurement date	S\$4 79	S\$3 07	S\$2 28	S\$2 48	S\$3 94
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
<i>Assumptions under the Monte Carlo model</i>					
Share price	S\$5 50	S\$4 26	S\$2 67	S\$4 19	S\$5 40
Expected volatility					
- Sembcorp Industries Ltd	25 5%	32 4%	39 9%	32 1%	33 4%
- Straits Time Index ("STI")	10 2%	15 9%	N/A	N/A	N/A
Correlation with STI	49 5%	69 7%	N/A	N/A	N/A
Risk free interest rate	2 4% - 2 6%	0 9% - 1 3%	0 4% - 1 0%	0 6% - 0 9%	0 4% - 0 7%
Expected dividend	3 2%	4 7%	5 8%	3 8%	3 4%

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 £218,000 (2010 £204,000)

24 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

	2011		2010	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Commodity contracts	3,279	(2,190)	375	(818)
Forward foreign currency exchange contracts	-	-	25	-
Interest rate swaps	-	(3,445)	-	(3,396)
	<hr/>	<hr/>	<hr/>	<hr/>
	3,279	(5,635)	400	(4,214)
	<hr/>	<hr/>	<hr/>	<hr/>

Notes (continued)

24 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 an 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, 68% (2010: 69%) of the company's borrowings were at fixed rates after taking account of interest rate swaps. The directors are comfortable with this split given the company's high cash balance.

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

25 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.