

**Sembcorp Utilities (UK) Limited**

**Directors' report and financial  
statements**

**Registered number 4636301  
31 December 2012**



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## Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2012

The company is a wholly owned subsidiary of Sembcorp Utilities Pte Ltd, a company incorporated in the Republic of Singapore and has its registered office at 30 Hill Street, #05-04, Singapore 179360

### Principal activities

The company provides industrial solutions to its customers by delivering a range of integrated services. The principal elements are

<b>Energy</b>	Generation and supply of heat and power, the supply of water, industrial gases and other environmental services
<b>Onsite logistics</b>	Protection of customers' assets, reputation and people through services such as emergency response, security and community response. Asset management services through the provision of integrated stores, warehousing, infrastructure and analytical services

### Business review

#### Performance

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

	2012 £000	2011 £000
Turnover	168,633	145,797
Gross profit	1,186	16,236
Operating (loss)/profit	(180)	11,275
(Loss)/profit for the financial year	(237)	8,483
Operating (loss)/profit margin	(0.1%)	8%

The directors are satisfied with the results for the year given the difficult trading conditions. Very weak gas spreads within the UK wholesale power market have continued into 2012, which has been compounded by a drop in the price of carbon allowances across the year. These market driven factors have significantly reduced revenue and profitability in 2012.

During the first 9 months of 2012, the overall on-site demand for steam and power also reduced, leading to further downward pressure on revenue and profitability. Steam and power demand started to pick up during the 4<sup>th</sup> quarter of 2012 and now continues to be in line with expectations.

The Wilton 10 biomass boiler delivers green generation benefits, and is a key strategic asset to the company, delivering strong profitability. The first planned major overhaul of the Wilton 10 turbine was undertaken during the year. The actual outage was longer than initially expected resulting in reduced profitability. The asset has continued to perform well since its return to service.

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

Although the company recorded a loss for the year, the balance sheet as at 31 December 2012 demonstrates that the financial position of the company remains strong with net assets of £153.7 million (2011: £155.3 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, operating profit margin percentage, earnings before interest and taxation (EBIT), return on carrying value (ROCV) and return on capital employed (ROCE).

## **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. An on-going programme of asset efficiency improvements and existing customer initiatives to improve flexibility and reliability will deliver further operational and financial benefits.

The SCI group has also been working in partnership with a recycling and resource management company, SITA, and subsequent to the year end has been selected as the preferred bidder on a project which will lead to a circa 400,000 tonnes energy-from-waste facility at Wilton.

### **Treasury policies**

The company finances its activities with a combination of loans and cash. In September 2012, the external bank loans were repaid in full and were replaced by an inter-company loan. 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 transactions to fix commodity prices. The purpose of these transactions is to manage the commodity and interest rate 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.

#### *Interest rate risk*

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

During the year the company refinanced its borrowings whereby the external bank loans were replaced with an inter-company loan. The inter-company loan also attracts interest at variable rates. 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, 66% (2011 68%) 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.

## **Directors' report** *(continued)*

### **Treasury policies** *(continued)*

#### *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 had entered into a twelve year external bank loan facility, elements of which were drawn down to finance the construction of Wilton 10. This was repaid earlier than scheduled and was replaced with an inter-company loan. The inter-company loan has no fixed repayment date and is available to the company until such date both the company and the inter-company loan provider agree to any repayment. Excess cash 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 preference dividend of £149,000 in respect of the year ended 31 December 2012.

The directors do not recommend the payment of an ordinary dividend in respect of the year ended 31 December 2012.

## **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 25 days (2011: 27 days)

### **Directors**

The directors who held office during the year were as follows

D S Annan  
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 £11,700 (2011: £13,000)

### **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

2 September 2013

## **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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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 2012 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 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 Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

#### **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 2012 and of its loss 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



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

2 September 2013

**Profit and Loss Account**  
*for the year ended 31 December 2012*

	<i>Note</i>	<b>2012</b> <b>£000</b>	<b>2011</b> <b>£000</b>
<b>Turnover</b>	<b>2</b>	<b>168,633</b>	<b>145,797</b>
<b>Cost of sales</b>		<b>(167,447)</b>	<b>(129,561)</b>
<b>Gross profit</b>		<b>1,186</b>	<b>16,236</b>
<b>Administrative expenses</b>		<b>(3,623)</b>	<b>(6,762)</b>
<b>Other operating income</b>	<b>3</b>	<b>2,257</b>	<b>1,801</b>
<b>Operating (loss)/profit</b>		<b>(180)</b>	<b>11,275</b>
<b>Profit on sale of fixed assets</b>		<b>-</b>	<b>398</b>
<b>Other interest receivable and similar income</b>	<b>6</b>	<b>52</b>	<b>56</b>
<b>Other finance income</b>	<b>7</b>	<b>604</b>	<b>214</b>
<b>Interest payable and similar charges</b>	<b>8</b>	<b>(4,077)</b>	<b>(3,570)</b>
<b>(Loss)/profit on ordinary activities before taxation</b>	<b>3-5</b>	<b>(3,601)</b>	<b>8,373</b>
<b>Tax on (loss)/profit on ordinary activities</b>	<b>9</b>	<b>3,364</b>	<b>110</b>
<b>(Loss)/profit for the financial year</b>	<b>20</b>	<b>(237)</b>	<b>8,483</b>

All of the results above are derived from continuing activities

**Balance Sheet**  
*at 31 December 2012*

	<i>Note</i>	2012 £000	2011 £000
<b>Fixed assets</b>			
Negative goodwill	11	(3,266)	(3,883)
Intangible assets	11	11	-
Tangible assets	12	209,808	218,857
Investments	13	-	-
		<u>206,553</u>	<u>214,974</u>
<b>Current assets</b>			
Stocks	14	11,881	14,206
Debtors (including £3,200,000 (2011 £nil) due after more than one year)	15	30,248	20,608
Cash at bank and in hand		10,785	18,351
		<u>52,914</u>	<u>53,165</u>
<b>Creditors: amounts falling due within one year</b>	16	<u>(26,549)</u>	<u>(31,216)</u>
<b>Net current assets</b>		<u>26,365</u>	<u>21,949</u>
<b>Total assets less current liabilities</b>		<u>232,918</u>	<u>236,923</u>
<b>Creditors: amounts falling due after more than one year</b>	17	(45,803)	(44,691)
<b>Provisions for liabilities</b>	18	(29,441)	(32,737)
<b>Net assets excluding pension liabilities</b>		<u>157,674</u>	<u>159,495</u>
<b>Pension liabilities</b>	22	(4,019)	(4,192)
<b>Net assets including pension liabilities</b>		<u>153,655</u>	<u>155,303</u>
<b>Capital and reserves</b>			
Called up share capital	19	30,967	30,967
Revaluation reserve	20	10,740	10,866
Capital contribution reserve	20	592	387
Profit and loss account	20	111,356	113,083
<b>Shareholders' funds</b>		<u>153,655</u>	<u>155,303</u>

These financial statements were approved by the board of directors on 2 September 2013 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 2012*

	2012 £000	2011 £000
(Loss)/profit for the financial year	(237)	8,483
Unrealised deficit on revaluation of properties	(126)	-
Actuarial loss recognised in the pension scheme	(633)	(4,368)
Deferred tax arising on losses in the pension scheme	155	1,158
Effect of reduced deferred tax rate on closing pension deficit	(101)	(93)
<b>Total recognised gains and losses relating to the financial year</b>	<b>(942)</b>	<b>5,180</b>

**Note of Historical Cost Profits and Losses**  
*for the year ended 31 December 2012*

	2012 £000	2011 £000
Reported (loss)/profit on ordinary activities before taxation	(3,601)	8,373
Realisation of property revaluation gains of previous years	-	34
<b>Historical cost (loss)/profit on ordinary activities before taxation</b>	<b>(3,601)</b>	<b>8,407</b>
<b>Historical cost (loss)/profit for the year retained after taxation and dividends</b>	<b>(237)</b>	<b>2,809</b>

**Reconciliation of Movements in Shareholders' Funds**  
*for the year ended 31 December 2012*

	2012 £000	2011 £000
(Loss)/profit for the financial year	(237)	8,483
Dividends on shares classified in shareholders' funds	-	(5,708)
<b>Retained (loss)/profit</b>	<b>(237)</b>	<b>2,775</b>
Unrealised deficit on revaluation of properties	(126)	-
Net gains and losses in respect of FRS 17	(579)	(3,303)
Net charge in relation to share based payments	(706)	(230)
<b>Net reduction in shareholders' funds</b>	<b>(1,648)</b>	<b>(758)</b>
Opening shareholders' funds	155,303	156,061
<b>Closing shareholders' funds</b>	<b>153,655</b>	<b>155,303</b>

## 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 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 is 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 results 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 (loss)/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

	2012 £000	2011 £000
<i>(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):</i>		
Depreciation and other amounts written off tangible fixed assets		
Owned	18,485	14,168
Leased	8	8
Hire of plant and machinery	369	690
Hire of other assets - operating leases	95	143
Restructuring costs	-	29
Management fees charged by parent undertaking	307	610
Operating lease rentals receivable - land and buildings	(2,257)	(1,801)
Amortisation of negative goodwill	(617)	(617)
Profit on disposal of tangible fixed assets	-	(398)

The restructuring costs in 2011 related to discretionary release payments made available to those employees who agreed to leave their employment with the company.

#### Auditor's remuneration

	2012 £000	2011 £000
Audit of these financial statements	86	87
Amounts receivable by the auditor and its associates in respect of		
All other services	-	7

## Notes (continued)

### 4 Remuneration of directors

	2012 £000	2011 £000
Directors' emoluments	135	256
Amounts receivable under long term incentive schemes	29	218
Company contribution to money purchase pension scheme	22	-
	<u>186</u>	<u>474</u>

The aggregate emoluments and amounts receivable under long term incentive schemes of the highest paid director were £164,000 (2011 £474,000) and company pension contributions of £22,000 (2011 £nil) were made to a money purchase scheme on his behalf. The highest paid director in 2011 was a member of a defined benefit scheme, under which his accrued pension at 31 December 2011 was £77,000.

	Number of directors	
	2012	2011
Retirement benefits are accruing to the following number of directors under		
Money purchase schemes	<u>1</u>	<u>1</u>

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	
	2012	2011
Operating	305	316
Administration	86	82
	<u>391</u>	<u>398</u>

The aggregate payroll costs of these persons were as follows:

	2012 £000	2011 £000
Wages and salaries	15,611	14,545
Share based payments (note 23)	266	282
Social security costs	1,601	1,617
Other pension costs (note 22)	1,396	1,320
	<u>18,874</u>	<u>17,764</u>

### 6 Other interest receivable and similar income

	2012 £000	2011 £000
Bank interest receivable	42	56
Interest on corporation tax recoverable	10	-
	<u>52</u>	<u>56</u>

## Notes (continued)

### 7 Other finance income

	2012 £000	2011 £000
Expected return on pension scheme assets	4,895	4,975
Interest on pension scheme liabilities	(4,291)	(4,761)
	<u>604</u>	<u>214</u>

### 8 Interest payable and similar charges

	2012 £000	2011 £000
On bank loans	3,881	3,398
On amounts payable to group undertakings	47	23
Finance costs on shares classified as liabilities	149	149
	<u>4,077</u>	<u>3,570</u>

The bank loan interest above includes amortisation of deferred fees of £1,185,000 relating to the bank loan (2011 £240,000), which was fully repaid in 2012 and replaced with an inter-company loan

### 9 Taxation

#### Analysis of credit in period

	2012	2011
	£000	£000
<i>UK corporation tax</i>		
Current tax on income for the period	421	1,817
Adjustments in respect of prior periods	(963)	(161)
	<u>(542)</u>	<u>1,656</u>
<i>Group relief</i>		
Amounts payable	-	-
Adjustments in respect of prior periods	233	-
	<u>233</u>	<u>-</u>
Total current tax	<u>(309)</u>	<u>1,656</u>
<i>Deferred tax (see note 18)</i>		
(Reversal)/origination of timing differences	(1,131)	552
Effect of reduction in tax rate	(2,587)	(2,610)
Adjustment in respect of previous years	663	292
	<u>(3,055)</u>	<u>(1,766)</u>
Tax on (loss)/profit on ordinary activities	<u>(3,364)</u>	<u>(110)</u>

## Notes (continued)

### 9 Taxation (continued)

For the year ended 31 December 2012, the company was subject to UK corporation tax at a rate of 26% during the 3 months to 31 March 2012 and 24% from 1 April 2012 to 31 December 2012, giving an average rate for the year of 24.5% (2011 26.5%)

#### Factors affecting the tax (credit)/charge for the current period

The current tax (credit)/charge for the period is lower (2011 lower) than the standard rate of corporation tax in the UK, 24.5% (2011 26.5%). The differences are explained below

	2012 £000	2011 £000
<i>Current tax reconciliation</i>		
(Loss)/profit on ordinary activities before tax	(3,601)	8,373
Current tax at 24.5% (2011 26.5%)	(882)	2,219
<i>Effects of</i>		
Finance charge on shares classified as liabilities	37	39
Expenses not deductible for tax purposes and other permanent differences	135	4
Chargeable gains	-	107
Capital allowances for period less than/(in excess of) depreciation	1,383	(421)
Other short term timing differences	(252)	(131)
Adjustments to tax charge in respect of previous periods	(730)	(161)
Total current tax (credit)/charge (see above)	(309)	1,656

#### Factors that may affect future current and total tax charges

The main rate of UK corporation tax changed from 26% to 24% on 1 April 2012. A further reduction in the main rate of UK corporation tax, to 23% with effect from 1 April 2013, became substantively enacted in July 2012 and therefore the effect of this further rate reduction on the deferred tax liability as at 31 December 2012 has been included in the figures above

The Chancellor has also proposed changes to further reduce the main rate of corporation tax by 2% to 21% by 1 April 2014 and a further 1% to 20% by 1 April 2015. These changes had not been substantively enacted at the year end and therefore are not included in the figures above. The overall effect of the reductions from 23% to 20%, if these applied to the deferred tax balance at 31 December 2012, would be to reduce the deferred tax liability by approximately £3,682,000

No provision has been made for deferred tax on gains potentially arising on the 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 £2,121,000 (2011 £2,509,000). 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

	2012 £000	2011 £000
Final dividends paid in respect of prior year but not recognised as liabilities in that year	-	3,357
Interim dividends paid in respect of the current year	-	2,351
	<hr/>	<hr/>
Aggregate amount of dividends paid in the financial year	-	5,708
Dividends in respect of the year recognised as a liability at the year end	-	-
	<hr/>	<hr/>
	-	5,708
	<hr/>	<hr/>

The aggregate amount of dividends proposed and not recognised as liabilities as at the year end is £nil (2011 £nil)

### 11 Intangible fixed assets

	Carbon trading certificates £000	Negative goodwill £000
<b>Cost</b>		
At beginning of year	-	(9,241)
Additions	11	-
	<hr/>	<hr/>
At end of year	11	(9,241)
	<hr/>	<hr/>
<b>Amortisation</b>		
At beginning of year	-	5,358
Credited in year	-	617
	<hr/>	<hr/>
At end of year	-	5,975
	<hr/>	<hr/>
<b>Net book value</b>		
At 31 December 2012	11	(3,266)
	<hr/>	<hr/>
At 31 December 2011	-	(3,883)
	<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
<b>Cost or valuation</b>						
At beginning of year	15,411	14,397	272,032	1,268	23,096	326,204
Additions	-	-	-	-	9,936	9,936
Disposals	-	-	-	-	(366)	(366)
Transfers between items	-	80	31,820	-	(31,900)	-
Revaluations	(126)	-	-	-	-	(126)
At end of year	15,285	14,477	303,852	1,268	766	335,648
<b>Depreciation</b>						
At beginning of year	-	2,978	103,639	730	-	107,347
Charge for year	-	329	18,101	63	-	18,493
At end of year	-	3,307	121,740	793	-	125,840
<b>Net book value</b>						
At 31 December 2012	15,285	11,170	182,112	475	766	209,808
At 31 December 2011	15,411	11,419	168,393	538	23,096	218,857

Included within land and buildings is long leasehold land of £566,000 (2011 £574,000). The remaining land and buildings are freehold. Plant and equipment as at 31 December 2012 include capitalised interest of £1 483 million (2011 £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

	2012 £000	2011 £000
On open market basis 30 September 2012 / 30 November 2007	15,285	15,411
Aggregate depreciation thereon	-	-
Net book value	15,285	15,411
Historical cost of revalued assets	4,545	4,545
Aggregate depreciation thereon	-	-
Historical cost net book value	4,545	4,545

The last full valuation was performed at 30 September 2012 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.

## 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

	2012 £000	2011 £000
Raw materials	6,686	6,049
Engineering spares	4,321	4,276
Renewable obligation certificates	874	3,881
	<u>11,881</u>	<u>14,206</u>

### 15 Debtors

	2012 £000	2011 £000
Trade debtors	19,978	15,758
Amounts owed by group undertakings	7	-
Amounts owed by subsidiary undertaking	2,478	1,200
Corporation tax recoverable	160	-
Other debtors	3,200	-
Prepayments and accrued income	4,425	3,650
	<u>30,248</u>	<u>20,608</u>

Other debtors include £3,200,000 held in an Escrow account, in respect of guarantees provided by the Company, and is due after more than one year

### 16 Creditors: amounts falling due within one year

	2012 £000	2011 £000
Shares classified as liabilities (note 19)	130	130
Bank loans (note 17)	-	7,803
Trade creditors	9,520	7,648
Amounts owed to group undertakings	1,354	-
Corporation tax payable	-	450
Other taxation and social security	1,491	2,066
Accruals and deferred income	14,054	13,119
	<u>26,549</u>	<u>31,216</u>

The above bank loan is stated net of borrowing costs of £nil (2011 £240,000)



## Notes (continued)

### 17 Creditors: amounts falling due after more than one year

	2012 £000	2011 £000
Shares classified as liabilities (note 19)	803	803
Bank loans	-	43,888
Loan from group undertaking	45,000	-
	<u>45,803</u>	<u>44,691</u>

The above bank loans are stated net of borrowing costs of £nil (2011 £0 945 million)

During the year the company refinanced its borrowings whereby the external bank loans were replaced with an inter-company loan. The inter-company loan has no fixed repayment date and is available to the company until such date both the company and the inter-company loan provider agree to any repayment. The inter-company loan is unsecured and attracts an interest charge of LIBOR plus 1% to 1.90%.

The bank loans attracted an interest charge of LIBOR plus 1% to 1.90%, were repayable in instalments by 31 December 2016, and were secured on the assets of the company and its subsidiaries.

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

	2012 £000	2011 £000
Within one year	-	7,803
Between one and two years	-	9,552
Between two and five years	-	34,336
Over five years	-	-
	<u>-</u>	<u>51,691</u>
Inter-company loan with no fixed repayment date	45,000	-
	<u>45,000</u>	<u>51,691</u>
<i>Analysed as</i>		
Amounts falling due within one year	-	7,803
Amounts falling due after more than one year	45,000	43,888
	<u>45,000</u>	<u>51,691</u>

The company has issued letters of credit totalling £9.85 million (2011 £9.85 million) as required under the terms of its power trading and fuel purchasing arrangements.

## Notes (continued)

### 18 Provisions for liabilities

	Carbon provision £000	Deferred taxation £000	Total £000
At beginning of year	-	32,737	32,737
Charge/(credit) to the profit and loss for the year	11	(3,307)	(3,296)
At end of year	11	29,430	29,441

### Deferred taxation

The elements of deferred taxation are as follows

	At beginning of year £000	Profit and loss account charge/ (credit) £000	Amounts included in STRGL £000	At end of year £000
Difference between accumulated depreciation and amortisation and capital allowances	32,852	(3,316)	-	29,536
Other short-term timing differences	(115)	9	-	(106)
Provision for liabilities (see above)	32,737	(3,307)	-	29,430
Pensions (see note 22)	(1,398)	252	(54)	(1,200)
	31,339	(3,055)	(54)	28,230

### 19 Called up share capital

	2012 £000	2011 £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
	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 (2011 £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.

## Notes (continued)

### 19 Called up share capital (continued)

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

### 20 Reserves

	Capital contribution reserve £000	Revaluation reserve £000	Profit and loss account £000	Total £000
At beginning of year	387	10,866	113,083	124,336
Loss for the year	-	-	(237)	(237)
Unrealised deficit on revaluation of properties	-	(126)	-	(126)
Equity settled share based payments	266	-	-	266
Recharge by the ultimate parent undertaking	(61)	-	(911)	(972)
Actuarial loss recognised in the pension scheme	-	-	(633)	(633)
Deferred tax arising on losses in the pension scheme	-	-	54	54
<b>At end of year</b>	<b>592</b>	<b>10,740</b>	<b>111,356</b>	<b>122,688</b>

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

	2012 £000	2011 £000
Contracted	3,857	4,528

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

	2012 Other £000	2011 Other £000
Operating leases which expire		
Within one year	53	14
In the second to fifth years inclusive	27	66
Over five years	-	13
	<b>80</b>	<b>93</b>

## 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 £1,396,000 (2011 £1,320,000).

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 was also closed to future accrual with effect from 31 March 2010 and for active members of the scheme the link to salary was removed. Active members are entitled to join the Sembcorp Stakeholder Pension Scheme.

The numbers shown below have been based on calculations carried out by a qualified independent actuary to take account of the requirements of FRS 17 in order to assess the liabilities of the scheme at 31 December 2012. The scheme's assets are stated at their market values at 31 December 2012.

Employer contributions in relation to deficit contributions over the accounting period, amounted to £400,000 (2011 £300,000). Employer contributions were paid at the rate of 13.1% of Pensionable Pay until 31 March 2010.

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.

	2012 £000	2011 £000
Present value of funded defined benefit obligations	(98,771)	(93,550)
Fair value of plan assets	93,552	87,960
	(5,219)	(5,590)
Present value of unfunded defined benefit obligations	-	-
Deficit	(5,219)	(5,590)
Related deferred tax asset	1,200	1,398
Net liability	(4,019)	(4,192)

## Notes (continued)

### 22 Pension scheme (continued)

#### *Movements in present value of defined benefit obligation*

	2012 £000	2011 £000
At 1 January	(93,550)	(89,357)
Current service cost	-	-
Interest cost	(4,291)	(4,761)
Actuarial losses	(4,423)	(3,877)
Benefits paid	3,493	4,445
	<hr/>	<hr/>
At 31 December	(98,771)	(93,550)
	<hr/>	<hr/>

#### *Movements in fair value of plan assets*

	2012 £000	2011 £000
At 1 January	87,960	87,621
Expected return on plan assets	4,895	4,975
Actuarial gains/(losses)	3,790	(491)
Contributions by employer	400	300
Benefits paid	(3,493)	(4,445)
	<hr/>	<hr/>
At 31 December	93,552	87,960
	<hr/>	<hr/>

#### *Income recognised in the profit and loss account*

	2012 £000	2011 £000
Current service cost	-	-
Interest on defined benefit pension plan obligation	(4,291)	(4,761)
Expected return on defined benefit pension plan assets	4,895	4,975
	<hr/>	<hr/>
Total income relating to the scheme as a whole	604	214
	<hr/>	<hr/>

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

	2012 £000	2011 £000
Other finance income	604	214
	<hr/>	<hr/>

The total amount recognised in the statement of total recognised gains and losses in respect of actuarial gains and losses is £633,000 loss (2011 £4,368,000 loss)

Cumulative actuarial gains/losses reported in the statement of total recognised gains and losses since the 2003 year end are £7,945,000 loss (2011 £7,312,000 loss)

## Notes (continued)

### 22 Pension scheme (continued)

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

	2012 Fair value £000	2011 Fair value £000
Equities	36,259	32,148
Government bonds	15,547	17,975
Corporate bonds	32,465	28,729
Property	8,513	8,347
Other	768	761
	<u>93,552</u>	<u>87,960</u>
Expected return on plan assets	4,895	4,975
Actuarial gain/(loss)	3,790	(491)
	<u>8,685</u>	<u>4,484</u>

At 31 December 2012, 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 2012. The total overall expected rate of return for 2011 and 2012 was 5.7% and 5.6% 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:

	2012 %	2011 %
Discount rate	4.4	4.7
Rate of increase to pensions in payment		
- benefits accrued pre May 2006	2.8	2.9
- benefits accrued post May 2006	2.0	2.1
Future salary increases	-	-
RPI Inflation	3.0	3.0
CPI Inflation	2.3	2.0

#### 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 24.2 years if they are female. For members who retire in 2032 at age 65 the assumptions are that they will live on average for a further 22.9 years after retirement if they are male and for a further 26.3 years after retirement if they are female.

## Notes (continued)

### 22 Pension scheme (continued)

#### History of plans

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

#### Balance sheet

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Present value of scheme liabilities	(98,771)	(93,550)	(89,357)	(92,737)	(72,835)
Fair value of scheme assets	93,552	87,960	87,621	83,091	76,678
(Deficit)/surplus	(5,219)	(5,590)	(1,736)	(9,646)	3,843

#### Experience adjustments

	2012 £000	2011 £000	2010 £000	2009 £000	2008 £000
Experience adjustments on scheme liabilities	(287)	2,448	(149)	410	(169)
Experience adjustments on scheme assets	3,790	(491)	3,850	5,567	(14,751)

With effect from 31 March 2010 the defined benefit pension scheme was closed to future accrual. The company expects to contribute £500,000, in deficit contributions, in the next financial year.

### 23 Employee share schemes

#### Share based payments

Share options in the ultimate parent company, Sembcorp Industries Ltd ("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 "2010 Share Plans") were approved and adopted by SCI shareholders at an Extraordinary General Meeting held on 22 April 2010. The 2010 Share Plans replaced the Share Plans which were approved and adopted by SCI shareholders at an Extraordinary General Meeting held on 5 June 2000 and expired in 2010.

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

The 2010 Share Plans are intended to increase SCI's flexibility and effectiveness in its continuing efforts to attract, retain and incentivise participants to higher standards of performance and encourage greater dedication and loyalty by enabling SCI to give recognition to past contributions and services, as well as motivating participants to contribute to the long-term prosperity of the SCI Group. The 2010 Share Plans 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 2010 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 2010 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 2010 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 2010 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 2010 Share Plans will be effective tools in motivating key senior management and senior executives to strive to deliver long-term shareholder value.

While the 2010 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 2010 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 2012 is £266,000 (2011 £282,000).

Other information regarding the 2010 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 Securities Trading Limited (SGX-ST) 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 2012 and 2011, 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	0.99	18 May 2005 - 17 May 2014
22 November 2004	-	61,000	1.16	23 November 2005 - 22 November 2014
1 July 2005	75,000	81,000	2.37	2 July 2006 - 1 July 2015
21 November 2005	87,000	93,000	2.36	22 November 2006 - 21 November 2015
9 June 2006	93,000	93,000	2.52	10 June 2007 - 9 June 2016
	<b>255,000</b>	<b>389,000</b>		

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

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

	2012		2011	
	Weighted average exercise price S\$	Number of options	Weighted average exercise price S\$	Number of options
Outstanding at the beginning of the year	2.00	389,000	2.03	497,500
Transferred out	-	-	2.52	(6,000)
Exercised during the year	1.19	(134,000)	2.12	(102,500)
Outstanding at the end of the year	<b>2.42</b>	<b>255,000</b>	<b>2.00</b>	<b>389,000</b>
Exercisable at the end of the year	<b>2.42</b>	<b>255,000</b>	<b>2.00</b>	<b>389,000</b>

Share options exercised in 2012 and 2011 were all settled by way of issuance of treasury shares by SCT. Share options were exercised on a regular basis throughout the year. The weighted average share price during the year was S\$5.24 (2011: S\$4.65).

The options outstanding at the year end have an exercise price in the range of S\$2.36 to S\$2.52 and a weighted average contractual life of 4 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	\$S0.60	\$S0.60	\$S0.60
Share price	\$S2.71	\$S2.71	\$S2.93
Exercise price	\$S2.68	\$S2.67	\$S2.83
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 (2011: £nil).

##### (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 2012 to 2014 will be vested to the senior management participants only if the restricted stocks for the performance period 2013 to 2014 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
2009	-	80,000
2010	80,000	80,000
	<u>80,000</u>	<u>160,000</u>

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

	2012 Number	2011 Number
Outstanding at the beginning of the year	160,000	240,000
Conditional shares awarded during the year	40,000	-
Conditional shares released	(120,000)	(60,000)
Lapsed during the year	-	(20,000)
	<u>80,000</u>	<u>160,000</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

	2009	2010
Fair value at measurement date	<u>S\$2 14</u>	<u>S\$2 71</u>
<i>Assumptions under the Monte Carlo model</i>		
Share price	S\$2 67	S\$4 19
Expected volatility		
- Sembcorp Industries Limited	39 9%	32 1%
- Morgan Stanley Capital International ("MSCI") AC Asia Pacific excluding Japan Industrials Index	33 9%	22 4%
Correlation with MSCI	77 5%	80 7%
Risk free interest rate	0 7%	0 7%
Expected dividends	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 £37,000 (2011 £64,000)

## 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 2012.

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-managerial participants of the Group will receive their awards in an equivalent cash value.

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.

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
2008	-	37,396
2009	37,240	102,640
2010	79,130	133,300
2011	100,400	135,600
2012	103,600	-
	<u>320,370</u>	<u>408,936</u>

The total number of restricted stocks outstanding, including awards achieved but not released, as at end 2012, was 320,370. Of this, the total number of restricted stocks in awards granted conditionally and representing 100% of targets to be achieved, but not released was 204,000. Based on the multiplying factor, the actual release of the awards could range from zero to a maximum of 306,000 restricted shares.

In 2012, additional 28,623 restricted shares were awarded for the over-achievement of the performance targets for the performance period 2010 to 2011.

## 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

	2012 Number	2011 Number
Outstanding at the beginning of the year	408,936	402,005
Granted during the year	103,600	135,600
Awarded during the year due to achievement	28,623	26,400
Transferred out	-	(39,667)
Released during the year	(195,221)	(111,702)
Shares deducted for prorated service period	(17,404)	-
Lapsed during the year	(8,164)	(3,700)
Outstanding at the end of the year	320,370	408,936

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	2011	2012
Fair value at measurement date	S\$3 07	S\$2 28	S\$2 48	S\$3 94	S\$4 61
<i>Assumptions under the Monte Carlo model</i>					
Share price	S\$4 26	S\$2 67	S\$4 19	S\$5 40	S\$5 16
Expected volatility					
- Sembcorp Industries Ltd	32 4%	39 9%	32 1%	33 4%	28%
- Straits Time Index ("STI")	15 9%	N/A	N/A	N/A	N/A
Correlation with STI	69 7%	N/A	N/A	N/A	N/A
Risk free interest rate	0 9% - 1 3%	0 4% - 1 0%	0 6% - 0 9%	0 4% - 0 7%	0 2% - 0 4%
Expected dividend	4 7%	5 8%	3 8%	3 4%	3 5%

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 £229,000 (2011 £218,000)

### 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

	2012		2011	
	Assets £000	Liabilities £000	Assets £000	Liabilities £000
Commodity contracts	835	-	3,279	(2,190)
Interest rate swaps	-	(2,768)	-	(3,445)
	835	(2,768)	3,279	(5,635)

## 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.

#### *Interest rate swaps*

During the year the company refinanced its borrowings whereby the external bank loans were replaced with an inter-company loan. The inter-company loan also attracts interest at variable rates. 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, 66% (2011: 68%) 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 Ltd, registered in Singapore, which in turn is a subsidiary of Sembcorp Industries Ltd.

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