

Teesside Gas Transportation Limited

Report and Financial Statements

31 December 2014

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COMPANIES HOUSE

Directors

A J P Brereton
R Harper
S Ross
A Heppel
A Zambelli
G Williams

Secretary

Jordan Company Secretaries Limited

Auditors

Ernst & Young LLP
Chartered Accountants
Citygate
St James' Boulevard
Newcastle upon Tyne
NE1 4JD

Registered Office

c/o Reed Smith LLP
Broadgate Tower
20 Primrose Street
London
EC2A 2RS

Strategic report

The directors present their strategic report, directors' report and financial statements for the year ended 31 December 2014.

Review of the business

The principal activity of the company in the year under review was that of gas transportation under the Capacity Reservation and Transportation Agreement ("CRTA") dated 10 September 1990 with the Central Area Transmission System ("CATS") Parties and associated transportation agreements with other parties. The CRTA grants the company certain rights including the right to transport a fixed quantity of gas within the CATS pipeline and exclusive access rights at certain entry points. The directors believe that this will continue unchanged into the foreseeable future.

The underlying results for the year and the financial position of the company at the year end were considered satisfactory.

Turnover increased by £1.2 million to £27.6 million due to incremental capacity sales over the period. Gross profit was £23.4 million, 85% margin (2013 – £19.2 million, 73%). Operating profits of £22.3 million, 81% margin (2013 - £10.8 million, 41%) were achieved which, when combined with movements in working capital, saw £17.4 million of cash flow generated from operating activities in 2014 (2013 – £17.9 million).

The company is subject to a Scheme of Arrangement (the "Scheme") with Deutsche Bank AG. During the year, the company complied with all the terms of the Scheme and continued to make payments to Deutsche Bank AG totalling £22.5 million (2013 – £12.8 million). Subsequent to the year end there have been further payments of £10.6 million to Deutsche Bank AG.

The directors utilise a number of key performance indicators ("KPIs") to monitor performance. These focus on gross margin, overheads, cash generation and cash balances held. The directors believe that further analysis using non-financial key performance indicators is not necessary for an understanding of the development, performance or position of the business of the company.

Principal risks and uncertainties

Risks are formally reviewed by the directors and appropriate processes put in place to monitor and mitigate them. Given that the company's transportation capacity under the CRTA is safeguarded by the long term transportation agreement and that the directors consider the company's counterparties to be financially robust, the primary risks in the short term are regarding major disruptions affecting the CRTA pipeline infrastructure or the upstream or downstream production and processing facilities.

The company's exposure is significantly mitigated through its principal counterparty agreements being on a back to back or pass through basis, so far as is possible.

On behalf of the Board



Tony Brereton

Chairman

30th October 2015

Directors' report

Directors

The directors who served during the year were as follows:

A J P Brereton
R Harper
S Ross
A Zambelli
A Heppel
G Williams

Dividends

The directors do not recommend a final dividend (2013 – £nil).

Going Concern

As disclosed in note 1 to the financial statements, the company is in a net liabilities position due to historic events and a Scheme of Arrangement is in place with the principal creditor. The company is expected to generate positive cash flows on its own account in the foreseeable future and the Directors believe that this, together with the terms of the Scheme of Arrangement, mean there are no material uncertainties which may cast doubt over the company's ability to continue as a going concern.

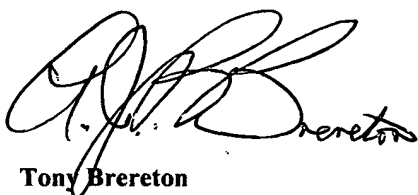
Disclosure of information to the auditor

So far as each person who was a director at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow directors and the company's auditor, each director has taken all the steps that he is obliged to take as a director in order to make himself aware of any relevant audit information and to establish that the auditor is aware of that information.

Directors' qualifying third party indemnity provisions

The company has granted an indemnity to one or more of its directors against liability in respect of proceedings brought by third parties, subject to the conditions set out in the Companies Act 2006. Such qualifying third party indemnity provision remains in force as at the date of approving the directors' report.

On behalf of the Board



Tony Brereton

Chairman

30th October 2015

Statement of directors' responsibilities

The directors are responsible for preparing the strategic report, 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 the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing these financial statements, the directors are required to:

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

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

Independent auditor's report

to the members of Teesside Gas Transportation Limited

We have audited the financial statements of Teesside Gas Transportation Limited for the year ended 31 December 2014 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Statement of Cash Flows and the related notes 1 to 17. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Scope of the audit of the financial statements

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

Opinion on the 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 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

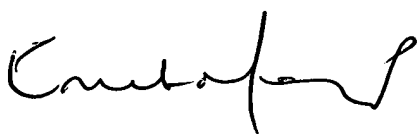
Independent auditor's report

to the members of Teesside Gas Transportation 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.



Mark Hatton (Senior Statutory Auditor)

For and on behalf of Ernst & Young LLP (Statutory Auditor)

Newcastle upon Tyne

6 November 2015

Profit and loss account

for the year ended 31 December 2014

	Notes	2014 £000	2013 £000
Turnover	2	27,597	26,403
Cost of sales		(4,237)	(7,232)
		<hr/>	<hr/>
Gross profit		23,360	19,171
Exceptional item	3	–	(7,608)
Administrative expenses		(1,032)	(795)
		<hr/>	<hr/>
Operating profit	4	22,328	10,768
Interest receivable and similar income	6	60	38
		<hr/>	<hr/>
Profit on ordinary activities before taxation		22,388	10,806
Tax	7	(2,983)	(2,628)
		<hr/>	<hr/>
Profit for the financial year	13	19,405	8,178
		<hr/>	<hr/>

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2014

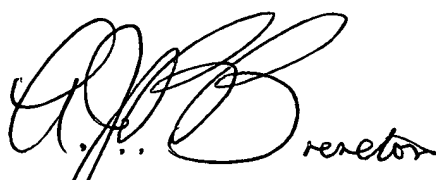
There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £19,405,000 in the year ended 31 December 2014 (2013 – profit of £8,178,000).

Balance sheet

at 31 December 2014

	Notes	2014 £000	2013 £000
Current assets			
Debtors due after more than one year	8	14,247	17,019
Debtors due within one year	8	6,698	9,581
		<u>20,945</u>	<u>26,600</u>
Cash at bank		8,085	13,173
		<u>29,030</u>	<u>39,773</u>
Current liabilities			
Creditors due within one year	10	(13,457)	(23,805)
Provisions for liabilities		(907)	(907)
		<u>(14,364)</u>	<u>(24,712)</u>
Net current assets		<u>14,666</u>	<u>15,061</u>
Total assets less current liabilities		<u>14,666</u>	<u>15,061</u>
Creditors: amounts falling due after more than one year	11	<u>173,843</u>	<u>193,643</u>
Capital and reserves			
Called up share capital	12	—	—
Profit and loss reserve		(159,177)	(178,582)
Shareholders' deficit	13	<u>(159,177)</u>	<u>(178,582)</u>
		<u>14,666</u>	<u>15,061</u>

The financial statements were approved and authorised for issue by the Board on 30th October 2015 and were signed on its behalf by:


Tony Brereton
 Director

Statement of cash flows

for the year ended 31 December 2014

	<i>Notes</i>	<i>2014</i> £000	<i>2013</i> £000
Net cash inflow from operating activities	14(a)	17,352	17,868
Returns on investments and servicing of finance	14(b)	60	38
Net cash inflow before use of liquid resources		17,412	17,906
Management of liquid resources		–	–
Appropriations to Scheme Creditors	14(c)	(22,500)	(12,800)
(Decrease) / Increase in net cash	14(d)	(5,088)	5,106

Reconciliation of net cash flow to movement in net debt

	<i>Notes</i>	<i>2014</i> £000	<i>2013</i> £000
Net cash at 1 January	14(d)	13,173	8,067
(Decrease) / Increase in net cash	14(d)	(5,088)	5,106
Net cash at 31 December	14(d)	8,085	13,173

Notes to the financial statements

at 31 December 2014

1. Accounting policies

Basis of preparation

The financial statements are prepared under the historical cost convention and in accordance with applicable accounting standards.

Going concern

At 31 December 2014 the company had net liabilities of £159 million (2013 – £179 million), which includes £187 million (2013 – £209 million) due to the company's ultimate parent undertaking, Deutsche Bank AG. As explained below, the amount due to Deutsche Bank AG is governed by a Scheme whereby repayments of this sum are only made where the directors of the company believe that there are surplus cash resources available to make such payments. In the early years of trading the company suffered significant losses which arose from its trading activities and exceptional charges incurred in relation to a long running court case settled in 2001. The losses were then funded by sister companies within the then Enron Group. This, together with the transfer of £148 million of development costs of the CATS pipeline by Enron Capital and Trade Resources Limited in 2001, resulted in the generation of substantial group liabilities.

On 30 March 2007, the Company agreed the terms of a Scheme of Arrangement (under s. 425 of the Companies Act 1985) (the "Scheme") with certain creditors who were all companies within the Enron Group. Following Court approval, the Scheme became effective on 20 April 2007. The creditors covered by the Scheme ("Admitted Scheme Creditors") have all agreed to and are bound by the terms of the Scheme which state that no party shall be permitted to commence or continue any proceedings against the company to recover their debts unless the Scheme is terminated before the final payments.

In return, the company is required to make regular payments to the Admitted Scheme Creditors in settlement of the Scheme claims. Under the terms of the Scheme, the Admitted Scheme Creditors are effectively subordinated to normal trading creditors as long as the company complies with the terms of the Scheme. Payments are made when, and only when, in the opinion of the directors in consultation with the Admitted Scheme Creditors, there is sufficient surplus cash available over and above what is required to fund forecast working capital requirements. At the year end the Admitted Scheme Creditor balance stood at £187 million (2013 – £209 million).

On 20 February 2008, Deutsche Bank AG acquired 100% of the Scheme Claims held by the Enron Group creditors and 100% of the company's equity. As such, Deutsche Bank AG is the sole shareholder and Admitted Scheme Creditor of the company at the balance sheet date.

The Scheme and the terms of the long term transportation agreement with the J-Block Parties dated 16 March 2007, provide assurance to the directors that the company will be able to meet its liabilities as they fall due for at least 12 months from the date of approval of these financial statements.

The company's main rights under the CRTA to the gas transportation capacity and pipeline access are scheduled to expire in 2018. However, until such time the company is expected to continue to trade profitably going forward.

It is on the above basis that the financial statements have been prepared on the assumption that the company will continue as a going concern for the foreseeable future.

Notes to the financial statements

at 31 December 2014

1. Accounting policies (continued)

Turnover

Turnover represents net invoiced sales excluding value added tax, from transportation of gas to capacity users. Income is recognised when the obligations giving rise to the income are fulfilled.

Investments

Excess cash within the company is periodically placed on deposit with third party institutions with deposits returned within sufficient time to allow the scheduled quarterly Scheme Creditor repayments. The company aims to achieve the highest return possible within the credit rating restrictions. Investments are only to be made in institutions with credit ratings of AA- or higher.

Taxation

The tax expense represents the sum of tax currently payable. The tax currently payable is based on the taxable profits or losses for the year. Taxable profit differs from net profit as reported in the profit and loss account because it excludes items of income or expenses that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or to a right to pay less tax in the future have occurred at the balance sheet date. 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.

2. Turnover

Turnover and the profit before taxation are attributable to the one principal activity of the company and carried out wholly in the United Kingdom.

3. Exceptional item

The exceptional item recorded in the prior year represents the settlement of a pricing dispute with the Company's supplier for the cost of capacity procured under the CRTA.

4. Operating profit

This is stated after charging:

	2014 £000	2013 £000
Auditor's remuneration – audit of the financial statements	14	13
– taxation compliance services	7	8
– taxation advice services	2	–
	<u>23</u>	<u>21</u>

Notes to the financial statements

at 31 December 2014

5. Directors' emoluments

The company did not have any employees, other than directors, during either financial year. The emoluments in respect of 5 (2013 – 5) of the directors that have received remuneration during the year is as follows:

	2014 £000	2013 £000
Aggregate emoluments	652	310
Social Security costs	82	38
	<u>734</u>	<u>348</u>

The highest paid director received emoluments of £181,918 (2013: £97,756).

6. Interest receivable and similar income

	2014 £000	2013 £000
Bank interest receivable	60	38
	<u>60</u>	<u>38</u>

7. Tax

(a) Analysis of tax charge for the year

The tax charge is made up as follows:

	2014 £000	2013 £000
<i>Current tax:</i>		
UK corporation tax on the profit for the year	–	–
Current tax for the year (note 6(b))	<u>–</u>	<u>–</u>
<i>Deferred tax:</i>		
Release of deferred tax asset (note 8)	(2,983)	(2,628)
Tax on profit on ordinary activities	<u>(2,983)</u>	<u>(2,628)</u>

The Company's significant brought forward trading loss bank results in no current UK corporation tax on the chargeable profits for the year. The tax charge for the year arises solely from the utilisation and re-estimation of the deferred tax asset associated with the historic losses.

Notes to the financial statements

at 31 December 2014

(b) Factors affecting tax charge for the year

The tax assessed for the year is different than the standard rate of corporation tax in the UK of 21.5% (2013 – 23.25%). The differences are explained below:

	2014 £000	2013 £000
Profit on ordinary activities before tax	22,388	10,806
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 21.5% (2013 – 23.25%)	4,813	2,512
<i>Effects of:</i>		
Utilisation of tax losses	(4,813)	(2,512)
Current tax for the year (note 6(a))	–	–

No liability to UK corporation tax arose on ordinary activities for the year ended 31 December 201 or for the year ended 31 December 2013 as a result of the utilisation of tax losses made during previous years.

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the United Kingdom for the year is 21.5% (2013: 23.25%).

The Finance Act 2013 received Royal Assent on 17 July 2013 and enacted a reduction in the main rate of corporation tax to 21% with effect from 1 April 2014 and a further reduction of 1% will be applied to bring the main rate of corporation tax to 20% from 1 April 2015. Deferred tax has therefore been provided at 20%.

8. Debtors

	2014 £000	2013 £000
<i>Amounts falling due after more than one year:</i>		
Deferred tax asset	14,247	17,019
<i>Amounts falling due within one year:</i>		
Trade debtors	–	685
Prepayments and accrued income	2,455	4,442
Deferred tax asset	4,243	4,454
	6,698	9,581
Total debtors	20,945	26,600

Notes to the financial statements

at 31 December 2014

9. Deferred tax

	<i>Accelerated capital allowances</i>	<i>Other timing differences</i>	<i>Unutilised tax losses</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
At 1 January 2014	105	5,742	15,626	21,473
Charge to the profit and loss account (see below)	–	(1,139)	(1,844)	(2,983)
At 31 December 2014	105	4,603	13,782	18,490

The deferred tax charge to the profit and loss account is analysed as below:

	<i>Accelerated capital allowances</i>	<i>Other timing differences</i>	<i>Unutilised tax losses</i>	<i>Total</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Utilisation of tax losses against taxable profit for the year (note 6(b))	–	–	(4,814)	(4,814)
Change in recognised deferred tax asset on unutilised tax losses due to the revision in the estimate of future profitability	–	(1,139)	1,267	128
Adjustment with respect to brought forward tax losses	–	–	1,703	1,703
Total (note 6(a))	–	(1,139)	(1,844)	(2,983)

Potential deferred tax

	<i>2014 Potential asset</i>	<i>2014 Recognised</i>	<i>2013 Potential asset</i>	<i>2013 Recognised</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accelerated capital allowances	105	105	105	105
Other timing differences	8,451	4,603	9,467	5,742
Tax losses carried forward	19,228	13,782	20,984	15,626
	27,784	18,490	30,555	21,473

The potential deferred tax asset is in excess of the recognised asset and relates to the additional unutilised tax losses not recognised given the directors' assessment that there is insufficient certainty regarding the level of future taxable profits against which the tax losses can be offset.

The Finance Act 2013 received Royal Assent on 17 July 2013 and enacted a reduction in the main rate of corporation tax to 21% with effect from 1 April 2014 and a further reduction of 1% will be applied to bring the main rate of corporation tax to 20% from 1 April 2015. Deferred tax has therefore been provided at 20%.

Notes to the financial statements

at 31 December 2014

10. Creditors: amounts falling due within one year

	2014 £000	2013 £000
Trade creditors	13	164
Amounts owed to parent company	12,800	15,500
Accruals and deferred income	644	8,141
	<u>13,457</u>	<u>23,805</u>

The amounts owed to parent company represent the estimated payments to be made in the coming year to Deutsche Bank AG under the Scheme of Arrangement.

The movement in accruals and deferred income relates to the accrued cost of settling the capacity pricing dispute referred in note 3 Exceptional items.

11. Creditors: amounts falling due after more than one year

	2014 £000	2013 £000
Amounts owed to parent company	<u>173,843</u>	<u>193,643</u>

The amounts owed to parent company are the noncurrent portion of estimated payments due to Deutsche Bank AG under the Scheme of Arrangement.

12. Share capital

	2014 No.	2014 £	2013 No.	2013 £
<i>Allotted, called up and fully paid</i>				
Ordinary 'A' shares of £1 each	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>
Ordinary preference share	<u>1</u>	<u>1</u>	<u>1</u>	<u>1</u>

Each 'B' share entitles the holder to one vote per share but carries no right or dividend or return of capital on winding up. Upon issue of any 'B' voting share, the voting rights attaching to the ordinary 'A' shares will be waived.

In accordance with the terms of the Scheme (see Directors' report), the company issued a warrant to each of the Admitted Scheme Creditors on 7 June 2007 which entitled the warrant holder to subscribe, at par, for a certain number of 'B' voting shares. The warrants are exercisable at any time during the continuance of the Scheme and as at 31 December 2014 none had been exercised.

The preference share in issue carries no voting rights or any right to a dividend or return of capital upon winding up.

Notes to the financial statements

at 31 December 2014

13. Reconciliation of shareholders' deficit and movement in reserves

	<i>Profit and loss account £000</i>	<i>Total shareholders' deficit £000</i>
At 1 January 2014	(178,582)	(178,582)
Profit for the financial year	19,405	19,405
At 31 December 2014	<u>(159,177)</u>	<u>(159,177)</u>

14. Notes to the statement of cash flows

(a) Reconciliation of operating profit to net cash inflow from operating activities

	<i>2014 £000</i>	<i>2013 £000</i>
Operating profit	22,328	10,768
Decrease / (increase) in debtors	2,673	(936)
(Decrease) / increase in creditors	(7,649)	8,036
Net cash inflow from operating activities	<u>17,352</u>	<u>17,868</u>

(b) Returns on investments and servicing of finance

	<i>2014 £000</i>	<i>2013 £000</i>
Interest received	60	38

(c) Appropriations to Scheme Creditors

	<i>2014 £000</i>	<i>2013 £000</i>
Payments to "Admitted" Scheme Creditors	<u>(22,500)</u>	<u>(12,800)</u>

(d) Analysis of net cash

	<i>At 1 January 2014 £000</i>	<i>Cash flow £000</i>	<i>At 31 December 2014 £000</i>
Cash at bank	13,173	(5,088)	8,085

Notes to the financial statements

at 31 December 2014

15. Related party transactions

The amounts owed to related parties are as follows:

	2014 £000	2013 £000
Amounts owed to parent company (note 9 and note 10)	186,643	209,143

During the year payments totalling £22.5 million (2013: £12.8 million) were made under the Company's Scheme of Arrangement to the Admitted Scheme Creditor, Deutsche Bank AG.

15. Contingent Liabilities

The Company is subject to a dispute with its main supplier with respect to the cost of procured capacity for the 2013 and 2014 contract years. The total disputed cost amounts to £4.9m as at the year end. The Company considers that it is possible, but not probable, that it will be required to pay some or all of the disputed amounts and therefore no provision for these amounts has been made. Undisputed amounts have been paid for in full.

16. Ultimate parent undertaking and controlling party

The immediate and ultimate parent undertaking is Deutsche Bank AG, a company incorporated in Germany. The group financial statements of this group are available to the public, and can be found at the following web address: <http://annualreport.deutsche-bank.com/2014> or may be obtained from Deutsche Bank AG, Theodor-Heuss Allee 70, 60262 Frankfurt am Main, Germany.

In the directors' opinion, Deutsche Bank AG is the company's controlling party.