

# Northern Gas Processing Limited

## FINANCIAL STATEMENTS

for the year ended

31 December 2004



Company Registered No 2866642

# Northern Gas Processing Limited

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# Northern Gas Processing Limited

## DIRECTORS' REPORT

The directors present their report and the audited financial statements for the year ended 31 December 2004

### Principal Activities

The principal activity of the Company is the fractionation of natural gas liquids, resulting from the processing of offshore natural gas. Under the terms of a tolling contract with Teesside Gas and Liquids Processing ("TGLP") (formerly Enron Europe Liquids Processing ("EELP")) the Company is paid a tolling fee for each therm of gas processed. The tolling fee is predominantly paid in US dollars but also has a sterling element.

Under the terms of a long-term contract signed with Enron Power Operations Limited ("EPOL") on 29 December 1993, EPOL was committed to providing the staff and resources to operate the plant and manage the routine business activities and obligations of the Company. During 2002 this contract was novated to px (TGPP Limited), who now have responsibility for the management of the plant. The anticipated future commitments to the year 2011 of the Company associated with this contract are \$12,491,000 (2003 \$13,345,000).

### Review of Business and Future Developments

Both the level of business and the year end financial position were broadly in line with expectations. The directors have considered the Company's forecast trading position and consider this to be satisfactory.

In November and December 2001, Enron Europe Limited and Enron Corp, commenced insolvency-related proceedings in the UK and USA respectively. This resulted in TGLP as a counterpart of the Company withholding payment of amounts owed to the Company from that period until March 2002 when a Standstill Agreement was reached. The Standstill Agreement was terminated on 28 February 2005. On 27 February 2007 all outstanding amounts under the Standstill Agreement were repaid.

On 15 May 2006, the share capital of Enron Europe Liquids Processing (now called Teesside Gas & Liquids Processing (TGLP)) was purchased by companies owned by MatlinPatterson Global Opportunities Partners (Cayman) II LP and Deutsche Bank AG, London. TGLP has subsequently paid all of its outstanding liabilities owed to the Standstill creditors and its finances have been stabilised. TGLP has entered into new agreements with major oil companies for the processing of North Sea gas, which supports the directors' view that TGLP should continue to trade for the foreseeable future, though those contracts are of a short term nature and there is no assurance that they will be renewed. This significant improvement in the fortunes of TGLP has an obvious positive impact on the Company's future trading position.

### Results and Dividends

The directors do not recommend the payment of a dividend. After making provision for the payment of a Preference dividend of \$1,600,000 (2003 \$1,600,000) (see note 8), the profit for the financial year of \$2,195,000 (2003 \$2,786,000) has been credited to reserves.

# Northern Gas Processing Limited

## DIRECTORS' REPORT (continued)

### Directors

The persons who served as directors of the Company during the year, together with their interest in the shares of the Company, are listed below

	Ordinary shares of \$1 each	
	At 31 December 2004	At 31 December 2003
Harrier No 1 Limited (resigned 24 February 2006)	-	-
Kestrel No 1 Limited (resigned 24 February 2006)	-	-
T C Carter (Chairman) (resigned 24 February 2006)	-	-

The following directors were appointed since the year end date

R Betolaza (Chairman) appointed 24 February 2006

G Deru appointed 24 February 2006

T De Waen appointed 22 September 2006

R H Weiss appointed 20 June 2006 and resigned 22 September 2006

I Burgess appointed 24 February 2006 and resigned 11 May 2006

R Wilkinson appointed 11 May 2006 and resigned 20 June 2006

Chandos Associates Limited appointed 24 February 2006

HYS Limited appointed 24 February 2006

### Directors' Interests

The directors who held office at 31 December 2004 have no beneficial interest in the shares of the Company

### Post Balance Sheet Events

On 18 November 2005 and 31 January 2006 the subordinated loan notes were bought by Deutsche Bank AG and on 27 March 2006 the senior loan notes were bought by Deutsche Bank Luxembourg SA. On 8 February 2006 the A and B preference shares were bought by Deutsche Bank AG, and then sold to MatlinPatterson Global Opportunities Partners (Cayman) II LP on 3 March 2006.

On 29 March 2006 the subordinated loan note holders issued notice declaring the principal amount of the loan notes together with interest accrued thereon and the yield maintenance amount immediately due and payable in a principal amount of \$45.3m together with interest accrued and yield maintenance amount at 28 March 2006 of \$31.6m and \$1.0m respectively. As part of a consensual reorganisation, the subordinated loan note holders agreed to an accelerated repayment based on availability of cash, subsequent to the senior debt being paid back in full.

On 15 May 2006 the share capital of the Company's customer was acquired by subsidiaries of a company controlled by MatlinPatterson Global Opportunities Partners (Cayman) II LP.

A claim has been made by the Company in the Bankruptcy of Enron Corp, no value was attributed to this claim at the year end by reason of the uncertainty of amounts that may be recovered or the time scale in which recovery may be achieved. The agreed claim amount as determined in November 2005 was US \$63 million.

Since the year end, amounts totalling \$18.8 million have been received in relation to the claim, together with 74,290 common equity shares in Portland General Electric Company, which, at the date of the transactions had a total market value of \$2.2 million.

The Senior Secured loan notes were repaid in full on 15 March 2007.

### Taxation Status

The Company is a close company as defined by the provisions of the Income and Corporation Taxes Act 1988 and this position has not changed since the end of the financial year.

# Northern Gas Processing Limited

## DIRECTORS' REPORT (continued)

### Statement of Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period which 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 those 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 accounting standards have been followed, subject to any material departures disclosed and explained in the accounts, 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 which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the accounts comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Auditors

The director, having been notified of the cessation of the partnership known as Baker Tilly, resolved that Baker Tilly UK Audit LLP be appointed as successor auditor with effect from 1 April 2007, in accordance with the provisions of the Companies Act 1989, s26(5). Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

By order of the Board

  
R Betolaza  
Chairman

Date...

June 5, 2007

# Northern Gas Processing Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN GAS PROCESSING LIMITED

We have audited the financial statements on pages 7 to 25

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards are set out in the Statements of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

### **Basis of opinion**

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board except the scope of our work was limited as explained below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

### **Going concern**

In forming our opinion, we have considered the adequacy of the disclosures made in note 1 of the financial statements concerning the directors' consideration of the continued demand from Teesside Gas and Liquids Processing, the Company's sole customer under the Tolling Contract. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

We have also considered the adequacy of the disclosure made in note 1 in respect of the uncertainty over the enforcement of the acceleration notice of the subordinated loan notes. In view of the significance of this uncertainty we consider that it should be drawn to your attention but our opinion is not qualified in this respect.

# Northern Gas Processing Limited

## INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF NORTHERN GAS PROCESSING LIMITED

### Opinion

In our opinion the financial statement give a true and fair view of the state of affairs of the company as at 31 December 2004 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985



**Baker Tilly UK Audit LLP**  
**Chartered Accountants and Registered Auditors**  
**Newcastle upon Tyne**

*20 June 2007*

# Northern Gas Processing Limited

## PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Notes	2004 \$000	2003 \$000 <i>As restated</i>
Turnover	2	32,825	28,738
Cost of sales		(10,084)	(9,314)
<b>Gross profit</b>		<b>22,741</b>	<b>19,424</b>
Administrative expenses		9,873	4,599
Other operating income	6	-	(4,834)
<b>Operating profit</b>	6	<b>12,868</b>	<b>19,659</b>
Interest receivable and similar income	4	6,569	213
Interest payable and similar charges	5	(13,528)	(13,446)
<b>Profit on ordinary activities before taxation</b>		<b>5,909</b>	<b>6,426</b>
<b>Tax on profit on ordinary activities</b>	7	<b>2,063</b>	<b>1,997</b>
<b>Profit for the financial year</b>		<b>3,846</b>	<b>4,429</b>
Accrual for dividends and other appropriations in respect of preference shares	8	1,651	1,643
<b>Retained profit for the financial year</b>	20	<b>2,195</b>	<b>2,786</b>

All activities of the Company are continuing



# Northern Gas Processing Limited

## STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

For the year ended 31 December 2004

	Notes	2004 \$000	2003 \$000 <i>As restated</i>
Profit for the financial year		2,195	2,786
Total recognised gains and losses relating to the year		<u>2,195</u>	<u>2,786</u>
Prior year adjustment	9	(1,230)	
Total recognised gains and losses recognised since last reported		<u>965</u>	

# Northern Gas Processing Limited

## BALANCE SHEET

31 December 2004

	Notes	2004 \$000	2003 \$000 <i>As restated</i>
<b>Fixed assets</b>			
Intangible fixed assets	10	-	31
Tangible fixed assets	11	118,493	122,800
		<u>118,493</u>	<u>122,831</u>
<b>Current assets</b>			
Debtors	12	11,669	9,623
Short term investments		34,350	25,813
Cash at bank and in hand		358	45
		<u>46,377</u>	<u>35,481</u>
<b>Creditors: amount falling due within one year</b>	13	47,079	34,153
<b>Net current (liabilities)/assets</b>		<u>(702)</u>	<u>1,328</u>
<b>Total assets less current liabilities</b>		<u>117,791</u>	<u>124,159</u>
<b>Creditors: amount falling due after more than one year</b>	14	100,476	112,793
<b>Deferred taxation</b>	17	4,060	1,957
<b>Net assets</b>		<u><u>13,255</u></u>	<u><u>9,409</u></u>
<b>Capital and reserves</b>			
Called-up share capital	18	8,000	8,000
Profit and loss account	20	5,255	1,409
<b>Shareholders' funds</b>	19	<u><u>13,255</u></u>	<u><u>9,409</u></u>
<b>Shareholders' funds may be analysed as follows:</b>	19		
Equity interests		(11,876)	(14,122)
Non-equity interests		25,131	23,531
		<u>13,255</u>	<u>9,409</u>

The financial statements on pages 7 to 25 were approved by the board of directors on 1 May 2005 and were signed on its behalf by

  
R Betolaza  
Chairman

# Northern Gas Processing Limited

## CASH FLOW STATEMENT

For the year ended 31 December 2004

	2004 \$000	2003 \$000
<b>Net cash inflow from operating activities</b>	24,520	26,361
<b>Returns on investments and servicing of finance</b>		
Interest received	369	213
Interest paid	<u>(9,099)</u>	<u>(6,952)</u>
<b>Net cash outflow from returns on investments and servicing of finance</b>	<u>(8,730)</u>	<u>(6,739)</u>
<b>Taxation</b>	(40)	-
<b>Management of liquid resources</b>		
Increase in short term investments	(8,537)	(25,813)
<b>Financing</b>		
Repayment of senior debt	<u>(6,900)</u>	<u>(5,750)</u>
<b>Increase/(decrease) in cash</b>	<u><u>313</u></u>	<u><u>(11,941)</u></u>

# Northern Gas Processing Limited

## CASH FLOW STATEMENT

For the year ended 31 December 2004

### Reconciliation of Operating Profit to Net Cash Inflow from Continuing Operating Activities

	2004	2003 <i>As restated</i>
	\$000	\$000
<b>Operating profit</b>	12,868	19,659
Depreciation on tangible fixed assets	4,307	4,307
Amortisation and write-off on intangible fixed assets	31	62
Decrease in trade debtors, prepayments and accrued income	4,194	2,855
(Decrease)/increase in trade creditors	(112)	139
Increase/(decrease) in other taxation and social security	110	(43)
Increase/(decrease) in accruals and deferred income	3,122	(618)
<b>Net cash inflow from continuing operations</b>	<b>24,520</b>	<b>26,361</b>

### Reconciliation of Net Cash Flow to Movement in Net Debt

	2004	2003 <i>As restated</i>
	\$000	\$000
Increase/(decrease) in cash	313	(11,941)
Increase in short term investments	8,537	25,813
Repayment of senior debt	6,900	5,750
Repayment of subordinated debt	-	-
<b>Change in net debt resulting from cashflows</b>	<b>15,750</b>	<b>19,622</b>
<b>Non-cash movements in net debt</b>		
Amortisation of issue costs	(345)	(374)
Increase in Subordinated Secured loan note interest	(4,107)	(6,116)
	(4,452)	(6,490)
<b>Net debt at 1 January</b>	<b>(119,626)</b>	<b>(132,758)</b>
<b>Net debt at 31 December</b>	<b>(108,328)</b>	<b>(119,626)</b>
<b>Analysis of net debt</b>		
Cash at bank and in hand	358	45
Liquid resources	34,350	25,813
Senior Secured loan notes	(82,311)	(89,082)
Subordinated Secured loan notes	(60,725)	(56,402)
	(108,328)	(119,626)

# **Northern Gas Processing Limited**

## **NOTES TO THE FINANCIAL STATEMENTS**

For the year ended 31 December 2004

### **1 Principal Accounting Policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### **Going Concern**

The operating results of the Company are dependant upon the continued demand for gas processing facilities at Teesside from gas producers who are connected to the gas pipeline terminating at Teesside and the continued demand from Teesside Gas and Liquids Processing, the Company's sole customer under the Tolling Contract. The directors believe that as a result of the common control of the Company and its sole customer they have more information available to them to consider the future trading prospects and believe that the customer will continue its demand under the Tolling Contract.

The subordinated loan note holders issued a notice of acceleration on 29 March 2006. The note holders are aware that the Company continues to be unable to satisfy the demand for payment of US\$77,874,435. They have confirmed their view that notwithstanding this continuing inability to satisfy the demand, that it is not in the best interests of the Company or its creditors for the Company to file for administration or liquidation, which would also adversely affect the loan note holder's ability to recover the sums owed to them. They have confirmed that they will refrain from taking any steps against the Company in connection with its failure to pay the US\$77,874,435 until further notice.

On this basis the Company directors believe it is appropriate for the company's accounts to be prepared on a going concern basis due to the continued support of the secured subordinated loan note holder.

#### **Basis of Accounting**

The financial statements are prepared in accordance with the historical cost convention.

#### **Foreign currencies**

Transactions in the financial statements are denominated in US Dollars, which in the opinion of the directors best reflects the financial transactions of this business. Transactions denominated in sterling are translated at the rate of exchange ruling on the transaction date. Assets and liabilities denominated in sterling are expressed in US Dollars at the rates of exchange ruling at the end of the financial period. Exchange differences arising on retranslation and settling of a transaction are included in the profit and loss account. The exchange rate at 31 December 2004 was £1 = \$1.9266 (2003 = \$1.7785).

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 1 Principal Accounting Policies (continued)

#### Tangible and Intangible Fixed Assets

The cost of tangible and intangible fixed assets are their purchase cost, together with any incidental costs of acquisition. Interest charges relating to assets under construction are capitalised.

The costs of statutory shutdowns are capitalised and depreciated over the period until the next anticipated shutdown. Statutory shutdowns are anticipated to take place every 6 years on Train I and every 3 years on Train II.

Depreciation and amortisation are calculated so as to write off the cost of tangible and intangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned, with the exception of freehold land which is not depreciated. The estimated useful lives are as follows:

	Years
Plant and equipment (other than capitalised shutdowns)	20 - 40
Intangible fixed assets	10
Capitalised shutdown - Train I	6
- Train II	3

#### Turnover

Turnover, which excludes value added tax and trade discounts, represents the invoiced value of services supplied.

#### Deferred Taxation

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 that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### Liquid resources

Liquid resources include sums on short-term deposits with recognised banks.

#### Finance costs

Finance costs of debt and non-equity shares are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount. Where the finance costs for preference shares are not equal to the dividends on these instruments, the difference is also accounted for in the profit and loss account as an appropriation of profits.

#### Debt

Debt is initially stated at the amount of the net proceeds after deduction of issue costs. The carrying amount is increased by the finance cost in respect of the accounting period and reduced by payments made in the period.

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 2 Turnover

Turnover consists entirely of sales made in the United Kingdom

### 3 Information Relating to Management and Directors

The Company has no employees. The directors, Harrier No 1 Limited and Kestrel No 1 Limited were provided under a service contract with indigo trading company limited. The third Director, Mr TC Carter was provided under the terms of a consultancy agreement with the company. The plant is operated under an operating and management contract with px (TGPP) limited.

Osprey No 1 Limited holds all the ordinary shares under a Declaration of Trust for charitable beneficiaries.

indigo trading company limited was paid a fee of \$188,900 (£98,000) (2003 \$28,700 (£17,630)), for the provision of management and secretarial services. T C Carter was paid a fee as a consultant of \$496,900 (£247,800) (2003 \$188,242 (£113,713)). Mr T C Carter also received remuneration as a director of \$193 (£100).

### 4 Interest Receivable and Similar Income

	2004 \$000	2003 \$000
Bank interest receivable	369	213
Other interest	6,200	-
	<u>6,569</u>	<u>213</u>

Other interest relates to interest receivable that has accrued at 13% under the provisions of the tolling contract on Standstill debtor amounts outstanding at the time the Standstill Agreement was put in place that still remain outstanding, and late paid invoices since. The directors consider this amount to be recoverable (See also note 12).

### 5 Interest Payable and Similar Charges

	2004 \$000	2003 \$000 <i>As restated</i>
Loan note interest payable	13,183	13,072
Issue costs written off (see note 16)	345	374
	<u>13,528</u>	<u>13,446</u>

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 6 Profit on Operating Activities

Profit on operating activities is stated after charging/(crediting)

	2004 \$000	2003 \$000
Depreciation of tangible owned fixed assets	4,307	4,307
Amortisation of intangible fixed assets	31	62
Auditors' remuneration for audit	54	46
Exchange losses/(gains) (see below)	1,469	(290)
Other operating income (see below)	-	(4,834)
Bad debt provision (see below)	(849)	768
Legal advisors fees (see below)	2,363	-

The following exceptional items are included in profit on operating activities

- 1) Other operating income arose in 2003 under the Standstill Agreement, when an additional tolling fee was charged by the Company to TGLP to recompense for the additional credit risk accepted by the Company in the continuing supply under the Tolling Agreement. With effect from 1 January 2004 this income ceased.
- 2) The exchange losses/(gains) includes an amount of \$1,497,000 (2003 - \$nil), in respect of the re-translation of invoices due to Teesside Gas and Liquid Processing and net off Common Facility Fee balances under the Standstill agreement, that are denominated in sterling.
- 3) In the year there was a decrease in the bad debt provision of \$849,000 (2003 - income \$768,000). The bad debt provision for 2003 was an estimate of the amount required to reduce the debt due from Teesside Gas and Liquid Processing, after off-setting the Common Facility Fee balances due by the Company to the amount then reasonably expected to be recovered. The reduction in the bad debt provision in the current year is a full release of the provision as it is no longer required. The movement in the previous year was as a result of the exchange rate movement from the re-translation of sterling invoices to US dollars in respect of which a provision was being made.
- 4) Included in administrative expenses is an amount of \$2,363,000 in respect of legal advisors' costs of the loan note holders, of which \$1,153,000 relates to costs incurred by loan note holders which were not levied on the company in respect of previous periods.

### 7 Tax on Profit on Ordinary Activities

(a) Analysis of charge in the year	2004 \$000	2003 \$000 <i>As restated</i>
Current tax		
UK Corporation tax on profits for the year	(40)	40
Total current tax (note 7(b))	(40)	40
Deferred tax		
Origination and reversal of timing differences (note 17)	2,103	1,957
Tax on profit on ordinary activities	2,063	1,997



# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 7 Tax on Profit on Ordinary Activities (continued)

The tax assessed for the period is lower than the standard rate of corporation tax in the UK 2004 – 30% (2003 – 19%) The differences are explained below

(b) Factors affecting tax charge for the year	2004 \$000	2003 \$000 <i>As restated</i>
Profit on ordinary activities for the year	<u>5,909</u>	<u>6,426</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK (2004 – 30%, 2003 – 19%)	1,773	1,221
Effects of		
Expenses not deductible for tax purposes	511	201
Depreciation in excess of capital allowances	(2,024)	818
Utilisation of tax losses	-	(2,200)
Adjustment to tax charge in respect of previous periods	(40)	-
Other timing differences	(260)	-
Current tax charge for the year (note 7(a))	<u>(40)</u>	<u>40</u>

### 8 Dividends

	2004 \$000	2003 \$000
Accrued dividends and appropriations on non-equity shares		
Preference dividend of 20 cents per share (2003 – 20 cents per share)	1,600	1,600
Appropriations for issue costs (see note 16)	51	43
	<u>1,651</u>	<u>1,643</u>

In accordance with Financial Reporting Statement Number 4 “Capital Instruments”, the cumulative class A preference share dividends have been accrued as a charge through the profit and loss account. A corresponding transfer has been made through reserves (see note 20)

### 9 Prior year adjustment

During the year the company made a prior year adjustment in respect of the default interest payable on the Subordinated Secured loan notes. The interest rate on Subordinated Secured loan notes that are in default is increased by 200 basis points to 13.07%. The loan notes not in default have no interest rate increase. The increased interest rate is applied to both the outstanding capital and interest amount that is in default. The impact on the preceding period's results has been a decrease in profit and loss reserves of \$1,230,000, including interest payable of \$1,754,000 and a reduction in the tax charge of \$524,000.

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 10 Intangible Fixed Assets

	\$000
<b>Cost</b>	
At 1 January 2004 and 31 December 2004	<u>1,105</u>
<b>Aggregate Amortisation</b>	
At 1 January 2004	1,074
Charge for the period	<u>31</u>
At 31 December 2004	<u>1,105</u>
<b>Net book amount at 31 December 2004</b>	<u><u>-</u></u>
<b>Net book amount at 31 December 2003</b>	<u><u>31</u></u>

The intangible fixed asset relate to payments made by the Company to secure an income escalation agreement, which guaranteed an annual increase in unit income in respect of the tolling contract with Teesside Gas and Liquid Processing. The directors reviewed and reduced the useful economic life of the asset in 2002 due to the uncertain long-term ability of Teesside Gas and Liquid Processing to meet its obligations under the Tolling Agreement, at that time.

### 11 Tangible Fixed Assets

	Freehold land \$000	Plant and equipment \$000	Total \$000
<b>Cost</b>			
At 1 January 2004 and 31 December 2004	<u>163</u>	<u>158,792</u>	<u>158,955</u>
<b>Accumulated Depreciation</b>			
At 1 January 2004	-	36,155	36,155
Charge for period	<u>-</u>	<u>4,307</u>	<u>4,307</u>
At 31 December 2004	<u>-</u>	<u>40,462</u>	<u>40,462</u>
<b>Net book amount at 31 December 2004</b>	<u><u>163</u></u>	<u><u>118,330</u></u>	<u><u>118,493</u></u>
<b>Net book amount at 31 December 2003</b>	<u><u>163</u></u>	<u><u>122,637</u></u>	<u><u>122,800</u></u>

Capitalised interest of \$10,970,000 is included within plant and equipment

At 31 December 2004 the freehold land was held in the name of Teesside Gas and Liquid Processing with a restriction that no disposition or dealing by the proprietor is to be registered without the consent of Northern Gas Processing Limited. On 16 March 2005 the freehold land was transferred absolutely to the Company at no additional cost.

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 12 Debtors

	2004 \$000	2003 \$000
<b>Amounts falling due within one year</b>		
Trade debtors	4,348	7,703
Bad debt provision	-	(997)
	<u>4,348</u>	<u>6,706</u>
Corporation tax recoverable	40	-
Other debtors	5	-
Prepayments and accrued income	<u>7,276</u>	<u>2,917</u>
	<u><b>11,669</b></u>	<u><b>9,623</b></u>

The trade debt due from Teesside Gas and Liquid Processing in respect of the Tolling Agreement is calculated after the offset of Common Facilities Fees, in relation to amounts that were subject to the Standstill Agreement. For details of bad debt provision see note 6.

Included in prepayments and accrued income is \$6,200,000 of accrued interest (see note 4) in relation to Standstill debtor amounts outstanding at the time the Standstill Agreement was put in place that still remain outstanding, and late paid invoices since, before offset of Common Facility Fees.

### 13 Creditors Amounts Falling Due Within One Year

	2004 \$000	2003 \$000 <i>As restated</i>
7 53% Senior Secured loan notes (see note 15)	8,050	6,900
11 07% Subordinated Secured loan notes (see note 15)	34,509	25,791
Trade creditors	302	414
Corporation tax	-	40
Other taxation and social security	336	226
Accruals and deferred income	<u>3,882</u>	<u>782</u>
	<u><b>47,079</b></u>	<u><b>34,153</b></u>

For details of the specific conditions attached to the loan notes see note 14.

### 14 Creditors: Amounts Falling Due After More Than One Year

	2004 \$000	2003 \$000
7 53% Senior Secured loan notes	74,750	82,800
Issue costs (Note 16)	(2,165)	(2,165)
Cumulative issue costs charged to profit and loss account	<u>1,676</u>	<u>1,547</u>
	<u>74,261</u>	<u>82,182</u>
11 07% Subordinated Secured loan notes	20,394	25,006
Capitalised interest	<u>6,488</u>	<u>6,488</u>
	<u>26,882</u>	<u>31,494</u>
Issue costs (Note 16)	(3,621)	(3,621)
Cumulative issue costs charged to profit and loss account	<u>2,954</u>	<u>2,738</u>
	<u>26,215</u>	<u>30,611</u>
	<u><b>100,476</b></u>	<u><b>112,793</b></u>

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 14 Creditors: Amounts Falling Due After More Than One Year (continued)

	2004 \$000	2003 \$000
Loan notes are repayable as follows		
- Between one and two years	14,838	12,662
- Between two and five years	53,192	49,680
- In five years or more	33,602	51,952
Total amount repayable	101,632	114,294
Less unamortised issue costs	(1,156)	(1,501)
	<u>100,476</u>	<u>112,793</u>

The \$115,000,000 7.53% Senior Secured loan notes were issued at par on 29 December 1993 in consideration for cash and are repayable by instalments which cease on 15 June 2011. The \$45,000,000 11.07% Subordinated Secured loan notes were issued at par on 19 April 1994 in consideration for cash and are repayable by instalments, which cease on 15 December 2011.

The loan notes are secured by fixed and floating charges over the property and interests of the Company. The Senior Secured notes rank for payment before the Subordinated Secured loan notes in the event of default in the terms of the Senior Secured notes, such default occurred when Enron Corp filed to commence bankruptcy proceedings in the USA in 2001. The default entitled the Senior Secured loan note holder to both accelerated repayment of the notes on demand and to rank for repayment before any payment to the Subordinated Secured loan notes. No demand for repayment had been made at 31 December 2004.

On 18 April 2005 the Senior Secured loan notes agreed with the Subordinated Secured note holders and the Company to amend the repayment terms of their notes and not to immediately accelerate their repayment. The amendment to the Secured and Subordinated Secured loan notes provided that:

- With effect from 1 October 2004 the interest rate on the Senior Secured loan notes be increased by 300 basis points to an annual rate of 10.53% in consideration of not making immediate demand for repayment of the notes. An immediate demand for repayment of the notes would have required the company also to have paid a premium for early repayment of all of the notes, the yield maintenance amount,
- Repayment of the Senior Secured loan notes to be made before any payment of interest or capital is made to the Subordinated Secured loan note holders,
- Payment to be made to the Senior Secured loan note holders at quarterly intervals commencing on the 15 June 2005. In so far as these payments do not relate to a repayment of a then currently due loan note the payment will include a yield maintenance amount. The amount of each quarterly payment will be determined after due provision has been made for current operating requirements, the agreement provides that the Company may retain as working capital \$10,000,000 in cash at the quarterly dates. This has been subsequently revised such that the company retains a lower level of working capital as the directors' consider sufficient for operational purposes.

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 16 Issue Costs

	7 53% Senior Secured loan notes (Note 14) \$000	11 07% Subordinated Secured loan notes (Note 14) \$000	Preference shares (Note 18) \$000	Total \$000
<b>Costs</b>				
<b>At 1 January 2004 and 31 December 2004</b>	<u>2,165</u>	<u>3,621</u>	<u>694</u>	<u>6,480</u>
<b>Amortisation</b>				
<b>At 1 January 2004</b>	1,547	2,738	211	4,496
<b>Charge for the period</b>	<u>129</u>	<u>216</u>	<u>51</u>	<u>396</u>
<b>At 31 December 2004</b>	<u>1,676</u>	<u>2,954</u>	<u>262</u>	<u>4,892</u>
<b>Unamortised issue costs at 31 December 2004</b>	<u><u>489</u></u>	<u><u>667</u></u>	<u><u>432</u></u>	<u><u>1,588</u></u>
<b>Unamortised issue costs at 31 December 2003</b>	<u><u>618</u></u>	<u><u>883</u></u>	<u><u>483</u></u>	<u><u>1,984</u></u>

The issue costs relating to the preference shares were written off against the profit and loss account reserves during the period ended 31 December 1994

### 17 Deferred Taxation

	2004 \$000	2003 \$000 <i>As restated</i>
<b>Provision at 1 January 2004</b>	1,957	-
<b>Deferred tax charge in profit and loss account for the year (see note 7)</b>	<u>2,103</u>	<u>1,957</u>
<b>Provision at 31 December 2004</b>	<u><u>4,060</u></u>	<u><u>1,957</u></u>
<b>Provision for deferred tax has been made as follows</b>		
<b>Excess of tax allowances over depreciation</b>	25,126	23,023
<b>Tax losses carried forward</b>	<u>(21,066)</u>	<u>(21,066)</u>
	<u><u>4,060</u></u>	<u><u>1,957</u></u>

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 18 Called Up Share Capital

#### Ordinary Shares

	2004	2003
<b>Authorised</b>	\$	\$
100 ordinary shares of \$1 each	<u>100</u>	<u>100</u>
<b>Allotted and fully paid</b>		
100 ordinary shares of \$1 each	<u>100</u>	<u>100</u>

#### Preference A Shares

<b>Authorised</b>	\$	\$
8,000,000 \$1 cumulative 20% preference A shares	<u>8,000,000</u>	<u>8,000,000</u>
<b>Allotted and fully paid</b>		
8,000,000 \$1 cumulative 20% preference A shares	<u>8,000,000</u>	<u>8,000,000</u>

#### Preference B Shares

<b>Authorised</b>	\$	\$
1 \$1 preference non – cumulative preference B share	<u>1</u>	<u>1</u>
<b>Allotted and fully paid</b>		
1 \$1 preference non - cumulative preference B share	<u>1</u>	<u>1</u>

#### Voting Rights

The holders of the Ordinary Shares of the Company have the right to one vote for every Ordinary Share. Holders of Preference Shares are not entitled to vote upon any resolutions other than in a number of special cases, as follows

- if the preference dividend is not paid when due,
- if there exists a default by any party under any Operative Document,
- if the Premises are destroyed or damaged, or
- if there are fewer than 2 directors of the Company

In any of these cases, the holders of the majority of the Preference Shares are entitled to remove and appoint up to 3 directors of the Company until such time that the event leading to the granting of these special rights to the Preference Shareholders ceases to exist

#### Redemption Rights

The Class A Preference Shares are redeemable by the Company in two equal amounts of 4,000,000 on 15 June 2011 and 15 December 2011 at par and an amount equal to any arrears, accruals or deficiencies of Class A Preference Share Dividends

After the Class A Preference Shares have been redeemed in full the Class B Preference Share is redeemable by the Company on the earlier of 31 December 2018 or the date when the cumulative dividends paid on that share total \$40,000,000

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 15 Loan notes

Loan notes and associated costs that are secured on the assets of the company may be analysed as follows

	Due within in one year \$000 (Note 13)	Due after more than one year \$000 (Note 14)	Total \$000
Senior Secured loan notes			
Loan note	8,050	74,750	82,800
Accrued interest	-	-	-
Accrued default interest	-	-	-
Total loan notes	<u>8,050</u>	<u>74,750</u>	<u>82,800</u>
Accrued chargeable professional costs associated with the holders of these notes	347	-	347
Total amount secured by these notes	<u>8,397</u>	<u>74,750</u>	<u>83,147</u>
Subordinated Secured loan notes			
Loan note (including capitalised interest)	18,444	26,882	45,326
Accrued interest	15,393	-	15,393
Accrued default interest	673	-	673
Total loan notes	<u>34,510</u>	<u>26,882</u>	<u>61,392</u>
Accrued chargeable professional costs associated with the holders of these notes	1,189	-	1,189
Total amount secured by these notes	<u>35,699</u>	<u>26,882</u>	<u>62,581</u>

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 18 Called Up Share Capital (continued)

#### Rights to Income and on Liquidation

The Class A Preference Shares have a preferential right to both income and return of capital on a winding up. This is restricted to the value of any unpaid accrued dividend and the nominal value of the shares.

The Class B Preference Share is entitled to any remaining funds after the Class A Preference Shares have been settled, to a limit whereby total payments received over the life of the instrument do not exceed \$40,000,000.

The ordinary shares receive any residual funds after both classes of preference share have been settled.

### 19 Reconciliation of Movements in Shareholders' Funds

	2004	2003
	\$000	\$000
		<i>* As restated</i>
Profit after taxation	3,846	4,429
Dividends and appropriations	(1,651)	(1,643)
	2,195	2,786
Dividends and appropriations in respect of preference shares	1,651	1,643
Net increase to shareholders' funds	3,846	4,429
Opening shareholders' funds	9,409	4,980
Closing shareholders' funds	<u>13,255</u>	<u>9,409</u>

\* The opening shareholders' funds at 1 January 2004 as previously reported amounted to \$10,639,000 before the prior year adjustment of \$1,230,000 (see note 9).

The Class A preference shares are entitled to the cumulative arrears of preference dividends of \$17,131,000 (2003: \$15,531,000). These arrears have built up over the period 29 December 1993 to 31 December 2004. The Class B preference shareholders are then entitled to any remaining balance of shareholders' funds when these arise, to a maximum amount of \$40,000,000.

#### The Equity interest for Shareholders' funds has been calculated as follows:

	2004	2003
	\$000	\$000
Shareholders' funds	13,255	9,409
Less:		
A Class Preference Shares	8,000	8,000
Contingent liability for cumulative preference dividends	17,131	15,531
Net Equity Shareholders' deficiency	<u>(11,876)</u>	<u>(14,122)</u>



# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 20 Reserves

Profit and loss account	\$000
At 1 January 2004 as previously reported	2,639
Prior year adjustment	<u>(1,230)</u>
At 1 January 2004 as restated	1,409
Profit for the period	2,195
Dividends and appropriations in respect of preference shares	<u>1,651</u>
At 31 December 2004	<u><u>5,255</u></u>

### 21 Contingencies and Commitments

The Company has contractual commitments under a Common Facilities Contract and an Operating and Maintenance Contract

The Company entered into a Common Facilities contract on 29 December 1993 which expires in December 2033 for the use of site common facilities. The monthly contracted amount is revised on an annual basis and the anticipated future commitments to the year 2018 of the Company resulting from this contract are \$71,208,000 (2003 \$71,126,000)

Under the terms of a long-term operating and maintenance contract signed with EPOL on 29 December 1993, EPOL committed to providing the staff and resources to operate the plant and manage the routine business activities and obligations of the Company. This contract was taken over by px (TGPP) limited in 2002. The anticipated future commitments to the year 2011 of the Company associated with this contract are \$12,491,000 (2003 \$13,345,000)

The Company is corresponding with the UK tax authorities regarding queries they raised initially on 23 May 1996 in respect of the availability of allowances on expenditure capitalised in the financial statements for the year ended 31 December 1994 as costs relating to the acquisition of plant. During 2005 a meeting was held between HM Revenue & Customs, the Company and tax advisers, but no agreement has yet been reached. The Company expects the position will be resolved in the future, but at this time the outcome is uncertain and it is not possible to reliably estimate the extent of the additional tax liability, if any.

### 22 Parent company and ultimate controlling party

The immediate parent is Osprey No 1 Limited, a subsidiary of indigo trading company limited. Osprey No 1 Limited holds the shares on behalf of a trust in favour of unnamed charities. The security trustee is Deutsche Trust Company.

Since the year end there has been a change in the holders of the preference shares, which in the opinion of the directors has resulted in a change of the ultimate controlling party. The ultimate controlling party in the opinion of the directors is MatlinPatterson Global Opportunities Partners (Cayman) II LP by virtue of its share holding in the preference shares, and therefore its entitlement to remove and appoint up to 3 directors (a majority) of the Company.

# Northern Gas Processing Limited

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004

### 23 Post Balance Sheet Events

On 18 November 2005 and 31 January 2006 the subordinated loan notes were bought by Deutsche Bank AG and on 27 March 2006 the senior loan notes were bought by Deutsche Bank Luxembourg SA. On 8 February 2006 the A and B preference shares were bought by Deutsche Bank AG, and then sold to MatlinPatterson Global Opportunities Partners (Cayman) II LP on 3 March 2006.

On 29 March 2006 the subordinated loan note holders issued notice declaring the principal amount of the loan notes together with interest accrued thereon and the yield maintenance amount immediately due and payable in a principal amount of \$45.3m together with interest accrued and yield maintenance amount at 28 March 2006 of \$31.6m and \$1.0m respectively.

As noted in the Directors' Report, on 15 May 2006, the share capital of Enron Europe Liquids Processing (now called Teesside Gas & Liquids Processing (TGLP)) was purchased by companies owned by MatlinPatterson Global Opportunities Partners (Cayman) II LP and Deutsche Bank AG, London. TGLP has subsequently paid all of its outstanding liabilities owed to the Standstill creditors (which included the Company) and its finances have been stabilised. TGLP has entered into a new agreement with a major oil company for the processing of North Sea gas, which supports the directors' view that TGLP should continue to trade for the foreseeable future, though those contracts are of a short term nature and there is no assurance that they will be renewed. This significant improvement in the fortunes of TGLP has an obvious positive impact on the company's future trading position, as the Company is no longer reliant upon a wholly owned subsidiary of Enron Europe Limited (In Administration) for all of its income. Instead, TGLP is now independent from the Administrators of Enron Europe Limited and the business objectives of TGLP and the Company are now closely aligned.

A claim has been made by the Company in the Bankruptcy of Enron Corp, no value was attributed to this claim at the year end by reason of the uncertainty of amounts that may be recovered or the time scale in which recovery may be achieved. The agreed claim amount as determined in November 2005 was US \$63 million.

Since the year end, amounts totalling \$18.8 million have been received in relation to the claim, together with 74,290 common equity shares in Portland General Electric Company, which, at the date of the transactions had a total market value of \$2.2 million.

The Senior Secured loan notes were repaid in full on 15 March 2007.