Registered No 2866642

Northern Gas Processing Limited

Report and Financial Statements

31 December 2011

Directors
M R Brown
A Heppel
J Van der Schee
A Zambelli

Secretary
Jordan Company Secretaries Limited

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

Registered Office
20-22 Bedford Row
London
WC1R 4JS

Directors' report

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

Results and dividends

After making provision for the payment of a preference dividend of £0 8 million (2010 – £1 8 million), the loss for the year after taxation amounted to £0 6 million (2010 – profit of £0 6 million) The directors do not recommend the payment of a dividend (2010 – £nil)

Principal activity and review of the business

The Company's principal activity 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 & Liquids Processing (TGLP), its immediate parent company, the Company is paid a tolling fee for each therm of gas processed

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

- ***Review of UEL***

During the year, the TGPP Group of which the Company is a member, conducted two significant studies as part of its ongoing strategic business review. The first of which was a 3rd party commissioned view as to the level of future expenditure required, above and beyond normal planned maintenance, which would necessarily be incurred to allow the plant to continue to operate for at least the next 20 years The second report, also conducted by a 3rd party, provided a detailed assessment of the potential future gas that would be transported to Teesside for processing via the CATS pipeline and the new Breagh SNS pipeline systems

The findings of the reports led to the conclusion that the useful economic life of the gas plant on both a technical basis and commercial basis would be at least the next 20 years and hence the estimate of the useful economic lives of the tangible fixed assets were revised accordingly

The financial statement impact of revising the UEL to 2033 was to amend the current year depreciation charge from £3 5 million to £1 4 million and hence a £2 1 million credit at both the operating profit and profit before tax level

- ***Financing***

The Company is able to participate in the three year £5million working capital facility arranged for the Teesside Gas Processing Plant Limited Group

Principal risks and uncertainties

The Directors regularly review the associated risks with the business and act when and where appropriate to mitigate those risks The following considers and describes the principal risks facing the business

- ***Inherent***

The principal risk facing the Company is the current reliance on a single piece of infrastructure, the CATS pipeline, for delivery of gas for processing. A pipeline incident curtailing delivery for the longer term would have an adverse impact on the Company's future financial performance This will be mitigated from 2012 by the completion of the gas pipeline from the Breagh area of the Southern North Sea (see above)

The Company is also exposed to the success, or otherwise, of Central North Sea exploration and gas production and similarly in the future to Southern North Sea exploration and gas production Cyclical drilling activity and variable future gross gas production from the CNS CATS pipeline catchment area and future SNS catchment area will determine the level of gas available for processing on Teesside

Directors' report

Exposure to price risk is minimised since the majority of income and costs are governed by long term contracts in which annual inflation increases are restricted to a floor of 3 5% and a cap of 5%

The Company's sole customer is not deemed to be a credit risk as the Company is owned by its customer.

Going concern

The going concern presumption has been assessed by the Directors and it is concluded that the use of the going concern basis of accounting is appropriate because there are no material uncertainties related to events or conditions that may cast significant doubt about the ability of the Company to continue as a going concern This conclusion is reached after noting the following

- The Company's current contracts are with its immediate parent company Teesside Gas & Liquids Processing, whose own contracts are of a similar long term nature with reputable credit worth counterparties deemed to pose insignificant credit risk
- The Company's current contract provides a stable income stream that covers the Company's operational costs base and allows it to meet its trading and other obligations for the foreseeable future out of current cash reserves
- The Company is able to participate in the working capital facilities of the Teesside Gas Processing Plant Limited Group

Directors

The persons who served as directors of the company during the year are listed below·

M R Brown
A Heppel
J Van der Schee
A Zambelli

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/she is obliged to take as a director in order to make himself/herself aware of any relevant audit information and to establish that the auditor is aware of that information

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting

On behalf of the board

Michael Brown

Director

2nd July **2012**

Statement of directors' responsibilities

The directors are responsible for preparing the annual 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 auditors' report

to the members of Northern Gas Processing Limited

We have audited the financial statements of Northern Gas Processing Limited for the year ended 31 December 2011 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet 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 financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2011 and of its loss 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 Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements

Independent auditors' report

to the members of Northern Gas Processing Limited

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

Ernst + Young

Mark Hatton (Senior Statutory Auditor)
For and on behalf of Ernst & Young LLP, Statutory Auditor
Newcastle upon Tyne

4 July 2012

Profit and loss account

for the year ended 31 December 2011

	Notes	*2011* *£000*	*2010* *£000*
Turnover		22,539	22,452
Cost of sales		(5,061)	(6,952)
Gross profit		17,478	15,500
Administrative expenses		(1,130)	(1,873)
Other income		315	-
Income from Enron claim		105	42
Operating profit	2	16,768	13,669
Investment income	4	30	36
Interest payable and similar charges	5	(801)	(1,099)
Profit on ordinary activities before taxation		15,997	12,606
Tax	6	(16,568)	(11,957)
(Loss)/profit for the financial year	14	(571)	649

All amounts relate to continuing activities.

Statement of total recognised gains and losses

for the year ended 31 December 2011

There are no recognised gains or losses other than the loss attributable to the shareholders of the company of £571,000 in the year ended 31 December 2011 (2010 – profit of £649,000)

Balance sheet

at 31 December 2011

	Notes	2011 £000	2010 £000
Fixed assets			
Tangible assets	8	24,473	25,861
		24,473	25,861
Current assets			
Debtors	9	42,651	25,249
Short term investments	10	1,209	1,042
Cash at bank and in hand		12	443
		43,872	26,734
Creditors: amounts falling due within one year	11	(58,713)	(41,696)
Net current liabilities		(14,841)	(14,962)
Total assets less current liabilities		9,632	10,899
Provisions for liabilities and charges			
Deferred taxation	12	(6,019)	(6,715)
Net assets		3,613	4,184
Capital and reserves			
Share capital	13	–	–
Profit and loss account	14	3,613	4,184
Shareholders' funds		3,613	4,184

The financial statements were approved and authorised for issue by the Board on 2nd July 2012

and were signed on its behalf by

Michael Brown

Director

Notes to the financial statements

at 31 December 2011

1. Accounting policies

Basis of preparation

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

Statement of cash flows

The company has taken advantage of the exemption available under FRS 1 not to prepare a statement of cash flows

Going concern

The financial statements are prepared utilising the presumption of going concern which is assessed by the Directors for a period of at least 12 months from the date of approval of the financial statements The documented assessment process is proportionate in depth and nature to the size, level of risk and complexity of the Company and its operations The conclusion of the assessment can be found in the Directors' report

Turnover

Turnover, which excludes value added tax, represents the invoiced value of services supplied and revenue is recognised at the point that the gas processing service has been performed for its customer

Interest income is recognised as interest accrues issuing the effective interest method

Tangible fixed assets

The cost of tangible and intangible fixed assets is their purchase cost, together with any incidental costs of acquisition Interest charges relating to fixed 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, as follows

Plant and machinery (other than capitalised shutdowns)		–	over 20-25 years
Capitalised shutdown	– Train I	–	over 6 years
	– Train II	–	over 3 years

Investments

Fixed asset investments are included in the financial statements at historic cost Current asset investments are included at market value

Notes to the financial statements
at 31 December 2011

1. Accounting policies (continued)

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 have occurred at that date that will result in an obligation to pay more, or 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, or 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

Financial instruments

Financial instruments are classified and accounted for, according to the substance of the contractual arrangement, as financial assets, financial liabilities or equity instruments An equity instrument is any contract that evidences a residual interest in the assets of the company after deducting all of its liabilities Interest and dividends relating to financial liabilities are recognised in the profit and loss account as an expense Distributions to holders of equity instruments are debited directly to equity

Liquid resources

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

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

Finance costs

Finance costs of debt are recognised in the profit and loss account over the term of such instruments at a constant rate on the carrying amount

Notes to the financial statements
at 31 December 2011

2. Operating profit

This is stated after charging/(crediting)

	2011	*2010*
	£000	*£000*
Depreciation of tangible owned fixed assets	1,388	3,462
Foreign exchange (gain) / loss	(148)	772
Income from Enron claim	(105)	(51)

Auditor's remuneration will be paid by the company's parent on behalf of all group companies Disclosure of the fees paid to the auditor is included in the financial statements of Teesside Gas Processing Plant Limited

3. Information relating to employees

The company has no employees

4. Investment income

	2011	*2010*
	£000	*£000*
Income from investments	29	35
Bank interest receivable	1	1
	30	36

5. Interest payable and similar charges

	2011	*2010*
	£000	*£000*
Interest payable on corporation tax	–	65
'A' preference shares finance costs	801	1,034
	801	1,099

Notes to the financial statements
at 31 December 2011

6. Tax

(a) Tax on profit on ordinary activities

The tax charge is made up as follows

	2011 £000	2010 £000
Current tax		
UK corporation tax on the profit for the year	–	1,690
Group relief payable	17,248	11,383
Adjustments in respect of previous periods	16	(16)
Total current tax (note 6(b))	17,264	13,057
Deferred tax		
Origination and reversal of timing differences	(211)	(1,100)
Effect of changes in tax rate	(485)	–
Total deferred tax (note 12)	(696)	(1,100)
Tax charge on profit on ordinary activities	16,568	11,957

(b) Factors affecting the tax charge for the year

The tax assessed for the year is higher than (2010 – higher than) the standard rate of corporation tax in the UK of 26.5% (2010 – 28%) The differences are explained below

	2011 £000	2010 £000
Profit on ordinary activities before tax	15,997	12,606
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26 5% (2010 – 28%)	4,239	3,529
Effects of		
Expenses not deductible for tax purposes	121	496
Depreciation in advance of capital allowances	210	852
Adjustments to tax charge in respect of previous periods	16	(16)
Group relief claimed	12,678	8,196
Current tax for the year (note 6(a))	17,264	13,057

Notes to the financial statements
at 31 December 2011

6. Tax (continued)

(c) Factors affecting future tax charges

The UK government has announced its intention to reduce the UK corporation tax rate to 22% by 1 April 2014 The reduction from 28% to 26% was substantively enacted on 29 March 2011and came into effect on 1 April 2011 A hybrid rate of 26 5% therefore applies to current tax liabilities arising during the period A reduction from 26% to 25% was substantively enacted on 5 July 2011 and was intended to come into effect on 1 April 2012 However, in the Budget Speech on 21 March 2012 the chancellor announced that the rate from 1 April 2012 would instead be reduced to 24% rather than the enacted rate of 25% At the balance sheet date, the change in the tax rate to be enacted 25% has no effect on current tax liabilities arising prior to the effective date of change The enacted reduction to 25% has however been applied to deferred tax assets and liabilities arising at the balance sheet date

The future tax charge will also be affected by the Government's intention to reduce the main rate of capital allowances from 20% to 18% and from 10% to 8% with effect from 1 April 2012

7. Dividends

	2011	*2010*
	£000	*£000*
Accrued dividends and appropriations on non-equity shares		
'A' preference dividend of USD 0 20 per share (2010 – USD 0 20 per share)	801	1,034

Notes to the financial statements
at 31 December 2011

8. Tangible fixed assets

	Freehold land £000	*Plant and equipment £000*	*Total £000*
Cost or valuation:			
At 1 January 2011	82	80,540	80.622
Additions	–	–	–
At 31 December 2011	82	80,540	80,622
Depreciation:			
At 1 January 2011	–	54,761	54,761
Provided during the year	–	1,388	1,388
At 31 December 2011	–	56,149	56,149
Net book value			
At 31 December 2011	82	24,391	24,473
At 1 January 2011	82	25,779	25,861

As reported in the Directors' report the Group re-estimated the UEL of its tangible fixed assets

The £1 4 million depreciation charge provided during the year can be rationalised as £3 5 million pre the extension of the UEL, less £2.1 million for the impact of extending the UEL.

Capitalised interest of £5,539,000 (2010 – £5,539,000) is included within plant and equipment

Notes to the financial statements
at 31 December 2011

9. Debtors

	2011 £000	2010 £000
Amounts owed by parent company	39,975	23,147
Prepayments and accrued income	2,112	2,102
Corporation tax	564	–
	42,651	25,249

10. Short term investments

	2011 £000	2010 £000
Listed investments	1,209	1,042

The listed investment relates to a company incorporated in the USA and listed on the New York Stock Exchange

In February 2011, the investment was sold for a consideration of £1 2 million

11. Creditors: amounts falling due within one year

	2011 £000	2010 £000
Trade creditors	5	5
Corporation tax	–	920
Group relief	35,111	17,841
Accruals and deferred income	247	234
'A' preference shares finance costs (cumulative accrued dividend)	–	17,526
'A' and 'B' preference shares reclassified as financial liabilities	–	5,170
Amounts owed to parent company	23,350	–
	58,713	41,696

Notes to the financial statements
at 31 December 2011

12. Provisions for liabilities

Deferred tax provided in the financial statements is as follows

	2011	*2010*
	£000	*£000*
Deferred tax	6,019	6,715

	£000
At 1 January 2011	6,715
Deferred tax credit in profit and loss account for the year (note 6(a))	(696)
At 31 December 2011	6,019

The deferred tax liability at the year end relates entirely to accelerated capital allowances

Notes to the financial statements
at 31 December 2011

13. Issued share capital

		2011		2010
Allotted, issued and fully paid	*No*	*$*	*No*	*$*
Ordinary shares of $1 each	100	100	100	100
$1 cumulative 20% 'A' preference shares	–	–	8,000,000	8,000,000
$1 non-cumulative 'B' preference share	1	1	1	1
		101		8,000,101
Less 'A' and 'B' preference shares reclassified as financial liabilities		(1)		(8,000,001)
		100		100

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 were redeemed during the year

The Class 'B' preference share is redeemable by the Company on the earlier of 13 December 2018 or the date when the cumulative dividends paid on that share total $40,000,000

Rights to income and on liquidation

The Class 'B' preference share is entitled to any remaining funds 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

Notes to the financial statements
at 31 December 2011

14. Reconciliation of shareholders' funds and movements on reserves

	Share capital £000	*Profit and loss account £000*	*Total share-holders' funds £000*
At 1 January 2010	–	3,535	3,535
Profit for the year	–	649	649
At 1 January 2011	–	4,184	4,184
Loss for the year	–	(571)	(571)
At 31 December 2011	–	3,613	3,613

15. 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 with TGLP 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 £21,899,000 (2010 - £24,733,000)

Under the terms of a long-term operating and maintenance contract the counterparty has committed to providing the staff and resources to operate the plant and manage the routine business activities and obligations of the Company The anticipated future commitments to the year 2018 of the company associated with this contract are £8,590,000 (2010 – £9,700,000)

16. Related party transactions

The company has taken advantage of the exemption available under FRS 8 not to disclose transactions with other members of the Teesside Gas Processing Plant Limited group

17. Ultimate parent undertaking and controlling party

The company's immediate parent company is Teesside Gas & Liquids Processing, incorporated and registered in England and Wales.

The parent undertaking of the smallest and largest group of undertakings for which group financial statements are drawn up and of which the company is a member is Teesside Gas Processing Plant Limited, which is registered in England and Wales Copies of group financial statements are available from Jordans Limited, 20-22 Bedford Row, London WC1R 4JS