

# **Northern Gas Processing Limited**

## **Report and Financial Statements**

31 December 2009



# Northern Gas Processing Limited

Registered No 2866642

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## **Directors**

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

## **Secretary**

Jordans 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 period ended 31 December 2009. The current period accounts have been prepared for a period of 17 months to 31 December because, following the acquisition of the business the company's period end has been aligned with that of its parent. As a result of changing the accounting period, the amounts included in the profit and loss account and related notes are not comparable in that the current period figures are for 17 months compared to seven months in the previous period.

### Results and dividends

The directors do not recommend the payment of a dividend. After making provision for the payment of a preference dividend of £1,422,000 (2008: £471,000), the profit for the period after taxation amounted to £1,190,000 (2008: loss of £4,799,000).

### 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 period 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.

During the period, the Company repaid materially all of its accrued interest and secured debt. Subsequent to the period end the final secured debt was repaid and the Company is able to participate in the three year £5million working capital facility arranged for the Teesside Gas Processing Plant Ltd Group with its bankers.

### Principal risks and uncertainties

The principal risk facing the Company is that its business is based on a single customer, TGLP, whose own business is reliant on a single piece of infrastructure, the CATS (Central Area Transmission System) pipeline, for delivery of the gas plant's customers' gas for processing. A pipeline incident curtailing delivery for the longer term would have an adverse impact on the Company's future financial performance.

Similarly, the Company is also exposed, through TGLP, to the success, or otherwise, of Central North Sea exploration and gas production. Cyclical drilling activity and variable future gross gas production from the CATS pipeline catchment area will determine the level of gas available for processing on Teesside and the utilisation of the Company's processing capacity.

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.

## Directors' report

### 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 contract 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 repaid substantially all of its secured debt during the year and is able to participate in the newly arranged working capital facilities of the group

### Directors

The persons who served as directors of the company during the period and subsequently are listed below:

R Betolaza	
G Deru	(resigned 31 March 2010)
D Scheurl	(resigned 31 March 2010)
O Hoyng	(resigned 26 August 2008)
N Bradley	(resigned 19 December 2008)
M R Brown	(appointed 31 March 2010)
A Heppel	(appointed 31 March 2010)
J Van der Schree	(appointed 31 March 2010)
A Zambelli	(appointed 31 March 2010)

### Disclosure of information to the auditors

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.

By order of the board

Director



28/06/2010

## 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 period ended 31 December 2009 which comprise the Profit and Loss Account, the Statement of Total Recognised Gains and Losses, the Balance Sheet and the related notes 1 to 21. 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 auditors**

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 the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

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.

### **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 2009 and of its profit for the period 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



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

30 June 2010

## Profit and loss account

for the 17 month period ended 31 December 2009 (2008 – 7 month period ended 31 July 2008)

	Notes	2009 £'000	2008 £'000
<b>Turnover</b>		30,608	14,178
Cost of sales		(8,091)	(24,167)
<b>Gross profit/(loss)</b>		22,517	(9,989)
Administrative (expenses)/income		(9,810)	68
Income from Enron claim	2	45	5,275
<b>Operating profit/(loss)</b>	2	12,752	(4,646)
Investment income	4	164	210
Interest payable and similar charges	5	(3,110)	(2,481)
<b>Profit/(loss) on ordinary activities before taxation</b>		9,806	(6,917)
Tax (charge)/credit on profit/(loss) on ordinary activities	6	(8,616)	2,118
<b>Profit/(loss) for the financial period</b>		1,190	(4,799)

## Statement of total recognised gains and losses

for the period ended 31 December 2009

There are no recognised gains or losses other than the profit attributable to the shareholders of the company of £1,190,000 in the period ended 31 December 2009 ( 2008– loss of £4,799,000)



**Balance Sheet**

at 31 December 2009

	Notes	2009 £'000	2008 £'000
<b>Fixed assets</b>			
Tangible assets	8	29,323	32,916
Investments	9	-	1,117
		<u>29,323</u>	<u>34,033</u>
<b>Current assets</b>			
Debtors	10	9,239	2,432
Short term investments	11	952	-
Cash at bank and in hand		188	10,412
		<u>10,379</u>	<u>12,844</u>
<b>Creditors: amounts falling due within one year</b>	12	(23,329)	(31,875)
<b>Net current liabilities</b>		<u>(12,950)</u>	<u>(19,031)</u>
<b>Total assets less current liabilities</b>		<u>16,373</u>	<u>15,002</u>
<b>Creditors, amounts falling due after more than one year</b>	13	(5,023)	(4,039)
<b>Provisions for liabilities</b>			
Deferred taxation	16	(7,815)	(8,618)
<b>Net assets</b>		<u>3,535</u>	<u>2,345</u>
<b>Capital and reserves</b>			
Share capital	17	-	-
Profit and loss account	18	3,535	2,345
<b>Equity shareholders' funds</b>		<u>3,535</u>	<u>2,345</u>

The financial statements were approved and authorised for issue by the Board and were signed on its behalf on 28/06 2010

Director



## Notes to the financial statements

at 31 December 2009

### 1. Accounting policies

#### *Basis of preparation*

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

#### *Change of currency*

On 1 August 2008 the company changed its functional currency from US dollars to sterling. The reason for doing so was that, following the acquisition of the company by Teesside Gas & Liquids Processing all income became denominated in sterling, and the dollar loan was redenominated as a sterling one. Consequently the majority of transactions became sterling denominated.

All comparative balance sheet numbers have been converted into sterling using the exchange rate of \$1 9805 as at 1 August 2008. All comparative profit and loss account numbers have been restated using the exchange rate in force at the time of each transaction.

#### *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 accounts 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.

#### *Depreciation*

The cost of tangible and intangible fixed assets are 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	—
	- Train II	—
		over 6 years
		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 2009

### 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 2009

### 2. Operating Profit/(loss)

This is stated after charging/(crediting)

	2009 £'000	2008 £'000
Depreciation of tangible owned fixed assets	3,597	21,609
Foreign exchange losses	5,059	287
Income from Enron Claim	(45)	(5,275)
Auditors' remuneration		
Audit services	-	5
Audit services in respect of prior periods (paid to previous auditors)	-	9
Other services – taxation	-	4
Other services – taxation (paid to previous auditors)	-	22

Auditors' remuneration will be paid by the company's parent on behalf of all group companies

### 3. Information relating to Management

The company has no employees. The plant was operated under an operating and management agreement until April 2009, when Teesside Gas & Liquids Processing was appointed as the company's agent

### 4. Investment income

	2009 £'000	2008 £'000
Income from investments	69	12
Bank interest receivable	95	198
	<u>164</u>	<u>210</u>

### 5. Interest payable and similar charges

	2009 £'000	2008 £'000
Loan note interest payable	1,626	1,804
Issue costs written off (see note 16)	62	28
Interest payable on corporation tax	-	178
'A' Preference shares finance costs	1,422	471
	<u>3,110</u>	<u>2,481</u>

## Notes to the financial statements

at 31 December 2009

### 6. Tax

#### (a) Tax on profit/(loss) on ordinary activities

The tax charge/(credit) is made up as follows.

	2009 £'000	2008 £'000
<i>Current tax</i>		
UK corporation tax on the profit for the period	3,296	2,279
Group relief payable	6,480	-
Adjustments in respect of previous periods	(363)	430
Double taxation relief	(13)	-
Foreign tax	19	-
	<u>9,419</u>	<u>2,709</u>
<i>Deferred tax</i>		
Origination and reversal of timing differences	(803)	(4,827)
	<u>(803)</u>	<u>(4,827)</u>
Total deferred tax (note 16)		
	<u>8,616</u>	<u>(2,118)</u>

#### (b) Factors affecting tax charge for the period

The tax assessed for the year is different from the standard rate of corporation tax in the UK of 28% (2008 – 28.85%). The differences are explained below:

	2009 £'000	2008 £'000
Profit/(loss) on ordinary activities before tax	9,806	(6,917)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008 – 28.85%)	<u>2,746</u>	<u>(1,996)</u>
<i>Effects of</i>		
Expenses not deductible for tax purposes	1,527	135
Accelerated capital allowances and other timing differences	838	6,218
Utilisation of tax losses in current period	-	(2,078)
Adjustments to tax charge in respect of previous periods	(363)	430
Higher taxes on overseas earnings	6	-
Group relief claimed	4,665	-
Current tax for the period (note 6(a))	<u>9,419</u>	<u>2,709</u>

## Notes to the financial statements

at 31 December 2009

### 7. Dividends

	2009 £'000	2008 £'000
Accrued dividends and appropriations on non-equity shares		
A Preference dividend of USD 0.20 per share (2008 USD 0.20 per share)	1,422	471

### 8. Tangible fixed assets

	<i>Freehold land £'000</i>	<i>Plant and equipment £'000</i>	<i>Total £'000</i>
Cost or valuation			
At 1 August 2008	82	80,618	80,700
Additions	-	4	4
Disposal of written down asset	-	(82)	(82)
At 31 December 2009	82	80,540	80,622
Depreciation			
At 1 August 2008	-	47,784	47,784
Provided during the period	-	3,597	3,597
Disposal	-	(82)	(82)
At 31 December 2009	-	51,299	51,299
Net book value			
At 31 December 2009	82	29,241	29,323
At 31 July 2008	82	32,834	32,916

Capitalised interest of £5,539,000 (2008 £5,539,000) is included within plant and equipment

## Notes to the financial statements

at 31 December 2009

### 9. Investments

	2009 £'000	2008 £'000
Listed investments	-	1,117
Aggregate market value of listed investments	-	867

The listed investment has been transferred to short term investments (current assets) and restated at market value as the directors are considering disposing of the investment.

### 10. Debtors

	2009 £'000	2008 £'000
Amounts falling due within one year:		
Amounts owed by parent company	7,305	-
Prepayments and accrued income	1,934	2,432
	9,239	2,432

### 11. Short term investments

	2009 £'000	2008 £'000
Listed investments	952	-
	952	-

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

### 12. Creditors: amounts falling due within one year

	2009 £'000	2008 £'000
11 07% Subordinated Secured loan notes (note 14)	-	15,350
Trade creditors	-	199
Corporation tax	845	2,898
Group relief	6,480	-
Other taxes and social security costs	-	612
Accruals and deferred income	226	1,271
'A' Preference shares finance costs (cumulative accrued dividend)	15,778	11,545
	23,329	31,875

## Notes to the financial statements

at 31 December 2009

### 13. Creditors: amounts falling due after more than one year

	2009	2008
	£'000	£'000
'A' and 'B' Preference shares reclassified as financial liabilities	5,023	4,039

### 14. Loan notes

	2009	2008
	£'000	£'000
11 07% Subordinated Secured loan notes	-	11,872
Capitalised interest	-	3,276
Total amount secured by these notes	-	15,148
Issue costs (note 15)	(1,828)	(1,828)
Cumulative issue costs charge to profit and loss accounts	1,828	1,766
Accrued interest	-	264
	-	15,350

The loan note debt was refinanced by a new term facility made available to NGPL under an existing facility agreement between TGLP (as borrower) and Deutsche Bank (as lender) on 19 December 2008. This new loan has itself been substantially repaid prior to the period end. Subsequent to the period end the outstanding balance of £50 (fifty pounds) was fully repaid.

### 15. Issue costs

	11 07% Subordinated Secured loan notes (note 14) £'000
Costs	
At 1 August 2008 and 31 December 2009	1,828
Amortisation:	
At 1 August 2008	1,766
Charge for the period	62
At 31 December 2009	1,828
Unamortised issue costs at 31 December 2009	-
Unamortised issue costs at 31 July 2008	62



## Notes to the financial statements

at 31 December 2009

### 16. Provisions for liabilities

Deferred taxation provided in the financial statements are as follows

	2009 £'000	2008 £'000
Deferred tax	7,815	8,618
		£'000
At 1 August 2008		8,618
Deferred tax credit in profit and loss account for the period (note 6(a))		(803)
At 31 December 2009		7,815

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

### 17. Issued share capital

	No	2009 \$	No	2008 \$
<i>Allotted, issued and fully paid</i>				
Ordinary shares of \$1 each	100	100	100	100
\$1 cumulative 20% 'A' preference shares	8,000,000	8,000,000	8,000,000	8,000,000
\$1 non-cumulative 'B' preference share	1	1	1	1
		8,000,101		8,000,101
Less: 'A' and 'B' preference shares reclassified as financial liabilities		(8,000,001)		(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.

## Notes to the financial statements

at 31 December 2009

### 17. Issued share capital (continued)

#### 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.

The shares could only have been redeemed early at the option of the shareholders, at a premium of 10 cents per share, had the acceptance of Train II not occurred before 1 February 1998

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 '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

### 18. Reconciliation of shareholders' funds and movements on reserves

	<i>Share capital £'000</i>	<i>Profit and loss account £'000</i>	<i>Total share- holders' funds £'000</i>
At 1 January 2008	-	7,144	7,144
Loss for the period	-	(4,799)	(4,799)
At 1 August 2008	-	2,345	2,345
Profit for the period	-	1,190	1,190
At 31 December 2009	-	3,535	3,535

## Notes to the financial statements

at 31 December 2009

### 19. 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 £26,543,000 (2008 : £30,141,000)

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 2011 of the company associated with this contract are £1,901,000 (2008 : £3,362,000). During the period TGLP was appointed as the company's agent.

### 20. 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.

### 21. 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.