

Kellen Acquisitions Limited
Directors' Report and Financial Statements
Year ended 31 December 2012

Company number: 05366060



Kellen Acquisitions Limited
Directors' Report and Financial Statements
Year ended 31 December 2012

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Directors and other information

Directors	L Levi S Kassam L Woods
Secretary	Taylor Wessing Secretaries Limited
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	The Royal Bank of Scotland plc 135 Bishopsgate London EC2M 3UR
Registered office	5 New Street Square London EC4A 3TW
Company registration number	05366060

Kellen Acquisitions Limited

Directors' Report and Financial Statements

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Directors' report

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

Principal activities

The company is an intermediate holding company

Review of business and future developments

The company is a 100% subsidiary of Kellen Investments Limited (KIL) and full details of the business undertaken by the group are contained within the annual report and accounts of this company

The main operating businesses either directly or indirectly owned by the company during the year were Phoenix Natural Gas Limited (PNG), Phoenix Supply Limited (PSL), Phoenix Energy Services Limited (PES) and Phoenix Energy Limited (PEL)

On 22nd June 2012, the company's wholly owned subsidiary, Phoenix Energy Holdings Limited, completed the sale of 100% of the share capital of both PSL and PEL, to SSE plc, through its subsidiaries Airtricity (Energy Supply) Northern Ireland Limited & its Republic of Ireland-registered subsidiary Airtricity Limited for £22.0m. As part of the sale, the existing loan arrangement between PNG and PSL will be repaid in full.

Further to the completion of the sale, the Kellen group undertook a group restructuring in order to upstream the cash received from the sale together with other cash retained in the Group in support of potential working capital requirements of supply businesses.

As part of the restructuring, the company subscribed for a further £33.8m of ordinary shares in its wholly owned subsidiary PEHL. The company received a dividend of £59.1m from PEHL.

The company then undertook a capital reduction reducing the number of its preference shares in issue by 42,700,000 and making a cash distribution of £42.7m to KIL.

Following on from the sale the Company's main operating businesses are PNG and PES.

PNG is the owner and operator of the licence for the distribution network in the Greater Belfast and Larne areas of Northern Ireland. PNG is responsible for the development of the pipeline network. It also provides a 24/7 operational and transportation service platform to gas suppliers under the rules of the company's network code.

The PNG network currently extends to 3,192 kilometres of intermediate, medium and low pressure mains, which distribute natural gas throughout

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Directors' report (Continued)

the licence area, representing around 40% of the population of Northern Ireland

PNG manages the construction and operation of the network and is also responsible for the development of the market in Greater Belfast including the marketing of natural gas to new gas consumers and the related management and support associated with customer up until point of connection, already some 159,000 customers have been connected to the natural gas network in the 16 years since natural gas first became available in Northern Ireland

The business is regulated under licence by the Northern Ireland Authority for Utility Regulation (NIAUR)

PES is a specialist provider of downstream services into the Northern Ireland energy market, PES' remit includes the provision of a 24/7 emergency response to PNG, together with metering and meter reading services across the natural gas industry in Greater Belfast and Larne. In addition, PES delivers a range of other services to energy users on a demand and contract basis

PNG is partially financed by £275m of 5.5% bonds issued in 2009 and repayable in 2017 through its subsidiary Phoenix Natural Gas Finance plc, guaranteed by both PNG and its intermediate parent company Phoenix Distribution Holdings Limited (PDHL). PDHL is a 100% subsidiary of the company. These bonds were rated BBB+ by Fitch and Baa2 by Moody's. In addition in 2009 PNG entered into £80m bank facilities for a 3-year period in order to finance its future capital expenditure and working capital requirements. These facilities have been subsequently refinanced in 2011 reducing the value of the facilities to £60m with a maturity of 2014.

Principal risks and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of Kellen Investments Limited. Accordingly the principal risks and uncertainties are discussed in the annual report and accounts of Kellen Investments Limited, which does not form part of this report.

Key Performance Indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business. A discussion of the development, performance and position of the business in the context of the group as a whole is provided in the group's annual report which does not form part of this report.

Results and dividends

The profit for the year is £52.8m (2011 profit of £4.4m)

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Directors' report (Continued)

Political and charitable donations

The company made no political or charitable donations during the year (2011 £nil)

Directors and their interests

The directors who served during the year are shown on page 3

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG will therefore continue in office

By order of the board



Lorcan Woods

Director

Date: 17 July 2013

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Statement of directors' responsibilities

The directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period

In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make 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 financial statements,
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included in the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

On behalf of the board



Lorcan Woods
Director

Date: 17 July 2013

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Independent auditors' report

We have audited the financial statements of Kellen Acquisitions Limited for the year ended 31 December 2012 which comprise the profit and loss account, the statement of total recognised gains and loss, the balance sheet and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 7, 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 (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. In addition, we read all the financial and non-financial information in the annual report 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 2012 and of its profit for the year then ended.
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006

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

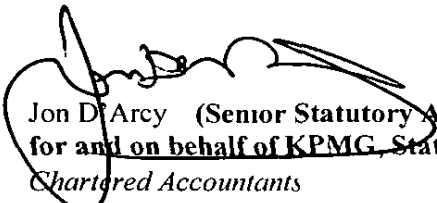
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Independent auditors' report (Continued)

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Jon D'Arcy (Senior Statutory Auditor)
for and on behalf of KPMG, Statutory Auditor
Chartered Accountants
Stokes House
17-25 College Square East
Belfast
BT1 6DH

Date **17 July** 2013

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Profit and loss account

	<i>Note</i>	2012 £'m	2011 £'m
Turnover	<i>2</i>	0.0	0.0
Cost of sales		0 0	0 0
Gross loss		0.0	0.0
Net administrative expenses	<i>3</i>	0 0	0 0
Operating profit/(loss)	<i>4</i>	0.0	0.0
Income from investments		59 1	9 0
Profit on sale of investments		0 0	0 0
Interest payable and similar charges	<i>6</i>	(7 2)	(7 2)
Interest receivable and similar income	<i>7</i>	0 6	0 9
Profit on ordinary activities before taxation		52.5	2.7
Taxation	<i>8</i>	0 3	1 7
Profit for the financial year	<i>13</i>	52.8	4.4

A reconciliation of movement on reserves is given in Note 13

The notes on pages 13 to 19 form part of these financial statements

All of the results of the company derive from continuing operations

There is no material difference between the company's results as reported and on a historical cost basis. Accordingly, no note of historical cost profits and losses has been reported

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Statement of total recognised gains and losses

	2012	2011
	£'m	£'m
Profit for the financial year	52.8	4.4
Total recognised profit since last report	52.8	4.4

The notes on pages 13 to 19 form part of these financial statements

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Balance sheet

	<i>Note</i>	2012 £'m	2011 £'m
Fixed assets			
Investments	9	212.9	179.1
		212.9	179.1
Current assets			
Debtors Amounts falling due within one year	10	58.5	56.8
Debtors Amounts falling due after one year	10	0.0	0.0
Cash at bank and in hand	15	5.1	26.3
Total current assets		63.6	83.1
Creditors Amounts falling due within one year	11	(254.2)	(250.0)
Net current liabilities		(190.6)	(166.9)
Total assets less current liabilities		22.3	12.2
Creditors Amounts falling due after one year	11	0.0	0.0
Net assets		22.3	12.2
Capital and reserves			
Called up share capital	12	24.4	67.1
Profit and loss account	13	(2.1)	(54.9)
Shareholders' funds	14	22.3	12.2

On behalf of the board of directors



Lorcan Woods
Director

Date: 17 July 2013

Company registration number 05366060

The notes on pages 13 to 19 form part of these financial statements

Kellen Acquisitions Limited

Directors' Report and Financial Statements

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Notes forming part of the financial statements

1 Accounting policies

These financial statements are prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 2006 and applicable accounting standards. The principal accounting policies are set out below.

Basis of preparation

The company is exempt by virtue of the Companies Act 2006 from the requirement to prepare group financial statements on the grounds that its results are included in the Group accounts of Kellen Investments Limited which are publicly available. These financial statements present information about the company as an individual undertaking and not about its Group.

Going concern

The company is an intermediate holding company within the Kellen Investments Limited Group.

The Group is financed through bank debt loan facilities and bond finance to support continued investment in its infrastructure assets and to meet its general working capital requirements. This debt facility is due for renewal in August 2014 and the bond due for redemption in 2017.

The Group's forecasts and projections, taking account of reasonable levels of possible changes in trading performance, show that the Group is capable of operating well within the level of its current facilities and also able to meet all its covenant requirements until they mature.

As a result of the above the directors consider it appropriate to prepare the financial statements on a going concern basis.

Cash flow statement

In accordance with Financial Reporting Standard No 1 (revised), the company is exempt from the requirement to present a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

Deferred taxation

Deferred tax is recognised in respect of

1/ Material 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, and

2/ losses not group relieved in the current period. Timing differences are differences between the company's taxable profit and its results as stated in the financial statements. Deferred tax assets and liabilities recognised have not been discounted.

Investments

Investments held by the company in subsidiary undertakings are stated at cost less amounts written off.

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2 Analysis of turnover

The company is a holding company and has made no supply of goods or services in the period

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses

4 Operating loss

This is stated after charging/(crediting)

	2012	2011
	£'000's	£'000's
Auditors' remuneration	2	2

5 Employee information

The company had no employees during the year (31 December 2011 nil) The directors did not receive any remuneration from the company in the year (31 December 2011 £nil)

6 Interest payable and similar charges

	2012	2011
	£'m	£'m
Amounts payable on bank loans and overdrafts	0 0	0 0
Amounts payable on inter-company balances	7 2	7 2
Amounts payable on loan notes	0 0	0 0
	7.2	7.2

7 Interest receivable and similar income

	2012	2011
	£'m	£'m
Bank interest	0 2	0 2
Amounts receivable on inter-company balances	0 4	0 7
	0.6	0.9

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8 Taxation

	2012	2011
	£'m	£'m
<i>Current Tax</i>		
UK corporation tax for the prior period	1.3	0.0
UK corporation tax for the period	(1.6)	(1.7)
Total current tax (credit)	(0.3)	(1.7)
<i>Deferred tax</i>		
Origination/reversal of timing differences	0.0	0.0
Total deferred tax charge	0.0	0.0
Total tax (credit)	(0.3)	(1.7)

The current tax credit for the year is higher than (2011 higher) the standard rate of corporation tax in the UK. The differences are explained below.

<i>Current tax reconciliation</i>	£'m	£'m
Profit on ordinary activities before tax	52.5	2.7
Current tax at 24.5 % (2011 26.5%)	12.9	0.7
<i>Effects of:</i>		
Adjustment relating to earlier years	1.3	0.0
Non taxable dividend income	(14.5)	(2.4)
Expenses not deductible	0.0	0.0
Transfer pricing adjustment	0.0	0.0
Total current tax (credit)	(0.3)	(1.7)

Factors that may affect future tax charges:

The UK Budget in 2012 announced that the UK corporation tax rate was to reduce to 21% over a period of three years from 2012. The first reduction in the UK corporation tax rate from 28% to 27% (effective from 1 April 2011) was substantively enacted in July 2010, and further reductions to 26% (effective from 1 April 2011) and 25% (effective from 1 April 2012) were substantively enacted in March 2011 and July 2011 respectively. The Finance Act 2012, which was substantively enacted on 17 July 2012, amended the main rate of corporation tax to 24% effective from 1 April 2012 and to 23% effective from 1 April 2013. This will reduce the group's future current tax charge accordingly. UK deferred tax balances have been calculated based on the rate of 23% substantively enacted at the reporting date.

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9 Fixed asset investments

		2012	2011
		£'m	£'m
Shares in subsidiary undertakings			
Cost and net book value at	1st January	179.1	179.1
Subscription		33.8	0.0
Cost and net book value at	31st December	212.9	179.1

The company has ordinary share investments in the following companies at 31 Dec 2012

Company name	Holding	Country of incorporation	Activity
Phoenix Energy Holdings Ltd	100% D	Great Britain	note (iii)
Phoenix Distribution Holdings Ltd	100% I	Great Britain	note (iii)
Phoenix Natural Gas Ltd	100% I	Northern Ireland	note (i)
Phoenix Natural Gas Finance PLC	100% I	Great Britain	note (iv)
Phoenix Energy Services Ltd	100% I	Northern Ireland	note (ii)
Belfast Energy Ltd	100% I	Northern Ireland	Dormant
Belfast Natural Gas Ltd	100% I	Northern Ireland	Dormant
Phoenix Gas Ltd	100% I	Northern Ireland	Dormant
Phoenix Power Ltd	100% I	Northern Ireland	Dormant
PNG Storage Ltd	100% I	Northern Ireland	Dormant

D Direct holding I Indirect holding

Note (i) Phoenix Natural Gas Ltd distributes natural gas to the greater Belfast area

Note (ii) Phoenix Energy Services Limited provides services to Phoenix Natural Gas Ltd as well as boiler and appliance maintenance services to energy consumers

Note (iii) Phoenix Energy Holdings Ltd and Phoenix Distribution Holdings Ltd are intermediate holding companies

Note (iv) Phoenix Natural Gas Finance plc has issued a bond listed on the LSE

All other companies are dormant within the meaning of the Companies Act 2006

During the year the company acquired 33,800,000 ordinary shares of £1 each in Phoenix Energy Holdings Limited as part of an internal group restructuring plan

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10 Debtors

	2012	2011
	£'m	£'m
<i>Amounts falling due within one year</i>		
Amounts owed by parent company	26.5	25.6
Amounts owed by subsidiary undertaking	31.4	31.1
Corporate taxation	0.0	0.0
Prepayments and accrued income	0.6	0.1
	58.5	56.8
<i>Amounts falling due after one year</i>		
Other	0.0	0.0
	0.0	0.0

11 Creditors

	2012	2011
	£'m	£'m
<i>Amounts falling due within one year</i>		
Amounts owed to parent company	29.9	20.8
Amounts owed to subsidiary undertaking	215.7	218.7
Other creditors	0.0	0.0
Accruals and deferred income	8.6	10.5
	254.2	250.0
<i>Amounts falling due after one year</i>		
Bank loan	0.0	0.0
Amounts owed to parent company	0.0	0.0
Amounts owed to subsidiary undertaking	0.0	0.0
	0.0	0.0
<i>Amounts falling due after one year: analysis</i>		
<i>Amounts falling due between two and five years</i>		
Bank loan	0.0	0.0
Amounts owed to subsidiary undertaking	0.0	0.0
	0.0	0.0
<i>Amounts falling due after five years</i>		
Amounts owed to parent company	0.0	0.0
	0.0	0.0

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12 Called up share capital

	2012	2011
	£	£
<i>Authorised</i>		
791,745 A Ordinary shares of £0.01 each	7,916	7,916
41,671 B Ordinary shares of £0.01 each	417	417
41,671 C Ordinary shares of £0.01 each	417	417
41,671 D Ordinary shares of £0.01 each	417	417
41,671 E Ordinary shares of £0.01 each	417	417
41,671 Z Ordinary shares of £0.01 each	417	417
129,900,000 Preference shares of £1 each	129,900,000	129,900,000
<i>Allotted and fully paid:</i>		
791,745 A Ordinary shares of £0.01 each	7,916	7,916
41,671 B Ordinary shares of £0.01 each	417	417
41,671 C Ordinary shares of £0.01 each	417	417
41,671 D Ordinary shares of £0.01 each	417	417
41,671 E Ordinary shares of £0.01 each	417	417
41,671 Z Ordinary shares of £0.01 each	417	417
24,396,092 (2011 67,096,092) Preference shares of £1	24,396,092	67,096,092

The B, C, D, E and Z ordinary and preference shares are all non-voting. A class ordinary shares carry one vote per issued share.

During the year the company reduced its share capital by 42,700,000 ordinary shares of £1 each as part of an internal group restructuring plan.

13 Reconciliation of movements in reserves

	2012	2011
	£'m	£'m
At 1 January	(54.9)	(59.3)
Capital Reduction	42.7	0.0
Profit for the financial year	52.8	4.4
OSC dividend paid	(42.7)	0.0
Revenue reserves carried forward	(2.1)	(54.9)

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14 Reconciliation of movements in shareholders' funds

	2012	2011
	£'m	£'m
Opening shareholders' funds	12.2	7.8
Preference shares redeemed	0.0	0.0
Profit for the financial year	52.8	4.4
OSC dividend paid	(42.7)	0.0
Closing shareholders' funds	22.3	12.2

15 Contingent liabilities

At 31 December 2012 the company had no contingent liabilities (31 December 2011 £nil). At the year end bank and cash balances totalling £ Nil (2011 £Nil) were collateralised in respect of ongoing contractual obligations.

16 Financial commitments

At 31 December 2012 the company had no annual commitments under non-cancellable operating leases (31 December 2011 £nil).

17 Related party disclosures

As the company is a wholly owned subsidiary of a UK incorporated company advantage has been taken of the exemption contained in FRS 8 not to disclose transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties).

18 Ultimate controlling party

The immediate parent company and controlling company is Kellen Investments Limited, a company incorporated in England, with registered office address 5 New Street Square, London EC4A 3TW.

Kellen Investments Limited, (a subsidiary of Carmel Capital II Sarl), is the parent company of the largest group of companies of which Kellen Acquisitions Limited is a member and for which group accounts will be drawn up, copies of which are available from the address above.

The directors regard TFCP Capital Investments Limited to be the ultimate parent company and Guy Hands to be the ultimate controlling party.