

Phoenix Natural Gas Limited
Directors' Report and Financial Statements
Year ended 31 December 2009

Company number: NI 32809

Phoenix Natural Gas Limited
Directors' Report and Financial Statements
Year ended 31 December 2009

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Directors and other information

Directors	P V Dixon (resigned 30 March 2010) W F M McKinstry(resigned 30 March 2010) A J Pollock I R Bell P Ritson (appointed 15 February 2010) D Russell (appointed 15 February 2010) R Fulton (appointed 15 February 2010)
Secretary	W F M McKinstry
Auditors	KPMG 17/25 College Square East Belfast BT1 6DH
Bankers	Northern Bank Donegall Square West Belfast BT1 6JS Barclays Capital 5 The North Colonnade Canary Wharf London E14 4BB The Royal Bank of Scotland plc 135 Bishopsgate London EC2M 3UR
Solicitors	McGrigors Arnott House 12-16 Bridge Street Belfast BT1 1LS
Registered office	197 Airport Road West Belfast BT3 9ED
Company registration number	NI 32809

Phoenix Natural Gas Limited

Directors' Report and Financial Statements

Year ended 31 December 2009

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2009.

Principal activities

The company (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 and also for providing a 24/7 operational and transportation service platform to gas suppliers under the rules of the company's network code.

The network currently extends to 3,018 kilometres of intermediate, medium and low pressure mains, which distribute natural gas throughout the licence area, representing around 50% of the population of Northern Ireland.

The company manages the construction and operation of the network and is also responsible for the development of the market in Greater Belfast; already some 131,000 customers have been connected to natural gas in the 13 years since it has become available in Northern Ireland.

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

Review of business and future developments

PNG was originally established under a licence granted in 1996 but the business was transferred into a new subsidiary to facilitate the sale of the transmission business to Northern Ireland Energy Holdings (NIEH) on 31st March 2008.

During 2009, PNG undertook an extensive rating process with Fitch and Moody's which culminated in a new subsidiary being set up, Phoenix Natural Gas Finance plc, to issue £275m of 5.5% Bonds repayable in 2017, guaranteed by both Phoenix Natural Gas Limited and its intermediate holding company Phoenix Distribution Holdings Limited. These Bonds received a rating of BBB+ by Fitch and baa2 by Moody's and the proceeds were used to repay existing acquisition debt providers across the Kellen Group, reorganise intercompany arrangements, repay fees and other costs and facilitate the upstreaming of any surplus to investors.

An additional £80m 3-year bank facility was also arranged to finance the future capital expenditure and working capital requirements of PNG.

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Directors' report (Continued)

Growth and Investment

Turnover of £37.3m in 2009 was £2.9m higher than that in 2008, generated primarily through the application of published conveyance charges to all gas distribution system users based on the amount of gas conveyed in the year. Charges are set annually in advance of the year (inclusive of an estimate of any surplus/deficit from the previous year) in order to recover the income 'determined' for each year within NIAUR's Price Control for the 5-year period ending on the 31st December 2011.

Actual income generated was higher than the 'determined' level for 2009, due in part to a higher than assumed level of over-recovery of income arising from 2008, but mainly as a result of a fall in the actual inflation rate applied to generate allowed income compared to that assumed when calculating published charges. As a result, an over-recovery of income of £3.3m has been accumulated at the end of 2009 (compared to £0.6m surplus at end of 2008). This will be carried forward and returned to all system users through lower conveyance charges in subsequent years.

111.6 million therms (mt) have been transported through the network, 2.5mt less than 2008 volumes. Volumes are estimated to have benefitted by 0.2mt due to temperatures marginally colder than the 5 year average. This compares to the situation in 2008 when volumes benefitted by 2.9mt as a result of temperatures being 0.3 degrees colder than average.

Demand in the large contract sector was impacted in 2009 by economic pressures on reduced production levels and by the continued focus by customers on energy efficiency measures to support both environmental concerns and pressure on spending. Otherwise underlying growth in throughput is driven by an increasing number of customers being connected to the network and load growth from existing users.

Operating profits of £15.9m were £1.8m higher than in 2008 with the growth in distribution income being partially offset by increases in operating costs. Actual operating costs are monitored closely in real terms against the levels assessed by NIAUR in determining allowed income. Whilst the implication of growth in business will drive cost increases to some extent each year this has been partially offset in 2009 by efficiencies delivered by the business to offset implications of negative RPI.

PNG invested a further £12.2m in capital expenditure during 2009, constructing 78km of new network and connecting 8,118 new customers. By year-end, PNG had 3,018km of network in operation, making gas available to 274,430 premises in its licence area, with a total of 130,673 (48%) already connected.

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Directors' report (Continued)

Operations and regulation

The company met all published standards of customer service, as measured independently by the Consumer Council for Northern Ireland (CCNI) and the NIAUR. In the key areas of connecting new customers and attending public reported escapes, targets were exceeded.

During 2009, the distribution network continued to operate without major incident.

No interruptions have occurred to the distribution of gas due to capacity constraints on the PNG network throughout the years 2006 to 2009.

A 'peak day' for demand of 18.3 GWH was recorded on 5th February 2009, which compares to the 2008 'peak day' of 16.9 GWH. However it should be noted that in 2009 the average temperature on this 'peak day' was lower at 0.8 degrees centigrade compared to 4.0 degrees centigrade in 2008.

PNG on behalf of the Kellen Group were recognised for its contribution to the environment by being awarded the Platinum accreditation in the prestigious Arena Network Annual Environmental Awards, which means that the Group's performance is recognised as being in the top nine organisations throughout Northern Ireland. Our ongoing operational procedures in the areas of environmental performance and Occupational Health and Safety were recognised by successfully retaining accreditations of ISO14001 and 18001.

PNG continued to build upon the solid regulatory foundation established in 2006 through the 40 year licence agreement with NIAUR by completing a modification to its licence to move from the original volume incentive to a connection incentive. This modification removes the inherent difficulties in agreeing forecast levels of volumes and replaced it with an incentive to grow the market with annual targets agreed with NIAUR for the owner occupied and small commercial sectors. In addition a licence modification to incorporate ring fencing conditions was also implemented. These conditions bring PNG in line with other regulated utilities within Northern Ireland and GB, with a requirement to fully implement the conditions by 31st March 2010.

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Directors' report (Continued)

Market Overview and Outlook

Over the last 14-years PNG has built a strong relationship with the Northern Ireland Housing Executive (NIHE), the body responsible for all Northern Ireland's public housing to ensure that the maximum number of NIHE tenants as possible benefit from the investment in natural gas. However with a high proportion of available NIHE properties already converted to gas the number of new connections in this sector is likely to fall somewhat over the forthcoming years.

Within the new build housing market 2009 saw a continuing slowdown of activity as a direct result of the collapse of the housing market. However as PNG has been very successful at capturing virtually all new developments within its licence area to date, and with its extensive distribution network throughout Greater Belfast, the company is well positioned to provide natural gas to all new housing projects in its licence area during 2010 and to benefit from any upturn when it arises.

Although PNG has now met its obligations to extend the gas network into existing owner occupied areas, further investment is planned throughout the prevailing price control period (2007 to 2011) to extend the gas network in established private residential areas where a strong propensity for customers to convert can be demonstrated.

2010 will also see a further planned investment to reinforce the distribution network and provide security of supply for PNG's customers in light of future expected increases in demand in certain parts of the system, with 9km of mains reinforcement planned within North Belfast as part of these plans.

PNG will continue to work closely with manufacturers of heating equipment and local installation companies to offer incentives and finance packages and, through additional marketing by the trade organisations, motivate potential owner-occupied customers to switch. Through our professional relationship with Government agencies, PNG will maximise consumer opportunities provided by Government funded schemes, such as 'Warm Homes' and 'Cosy Homes' - converting the fuel poor to a modern and efficient natural gas heating system and in addition PNG will continue to support initiatives to support the introduction of a "Boiler Scrappage" scheme as available within other parts of UK.

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.

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Directors' report (Continued)

Key Performance Indicators

The company's directors are of the opinion that analysis using turnover, gross profit, operating profit and net assets as provided in the financial statements is sufficient to understand the development, performance and position of the business.

Results and dividends

The profit for the financial year is £1,948,530 (2008: loss £5,701,642). No dividend is recommended.

Political and charitable donations

The company made charitable donations amounting to £16,244 during the year (2008: £15,892).

Directors and their interests

The directors who served during the period are shown on page 3.

Employment policies

Equal Opportunities

The company is committed to a proactive approach in promoting equality of opportunity. The company ensures that it operates fairly and equitably in its dealings with employees and prospective employees. The company is opposed to all forms of unlawful and unfair discrimination. The company ensures through all of its personnel policies, practices and procedures that employment, training and promotion opportunities within the company provide employment equality to all, irrespective of:

- Gender, marital or family status
- Religious belief or political opinion
- Disability
- Nationality, race or ethnic origin
- Sexual orientation
- Age

Disability

The company has taken active steps to implement the Disability Discrimination Act. It is Company policy to provide people with disabilities equal opportunities for employment, training and career development, having regard to aptitude and ability. Any member of staff who becomes disabled during employment is given assistance and retraining where possible.

Employee Participation

Within the bounds of commercial confidentiality, information is disseminated to all levels of staff about matters that affect progress of the company and are of interest and concern to them as employees, thereby encouraging their involvement in the group's performance.

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Directors' report (Continued)

Policy and practice on payment of creditors

The company is a registered supporter of the Better Payment Practice Group's 'Better Payment Practice Code' to which it subscribes when dealing with all of its suppliers. Copies of the Better Payment Practice Group's code are available from the Department of Trade & Industry. Trade creditors at the year end represented 26 days (2008: 29 days). It is the company's policy in respect of all suppliers to agree payment terms in advance of the supply of goods and to adhere to those payment terms.

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 auditors will be deemed to be reappointed and KPMG will therefore continue in office.

By order of the board

P Ritson
Director

Date: 23 June 2010

Phoenix Natural Gas Limited

Directors' Report and Financial Statements

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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.

The financial statements are required by law to 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 maintaining 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 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.

The directors are also responsible for preparing a Director's Report that complies with the Companies Act 2006.

On behalf of the board

P Ritson
Director

Date: 23 June 2010

Phoenix Natural Gas Limited

Directors' Report and Financial Statements

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Independent auditors' report

We have audited the financial statements of Phoenix Natural Gas Limited for the year ended 31 December 2009 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom 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 auditors

As explained more fully in the Directors' Responsibilities Statement set out page 10, the directors are responsible for preparing 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 relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 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. Further details of the scope of an audit of financial statements are provided on the Auditing Practices Board's website at <http://www.apb.org.uk/apb/scope>.

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 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.

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Independent auditors' report (Continued)

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report is consistent with the financial statements.

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

23 June 2010

Phoenix Natural Gas Limited
Directors' Report and Financial Statements
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Profit and loss account

	<i>Note</i>	2009 £'000	2008 £'000
Turnover	2	37,307	34,395
Cost of sales		0	0
Gross profit		37,307	34,395
Net operating expenses	3	(21,434)	(20,307)
Operating profit	4	15,873	14,088
Loss on sale of fixed asset		(121)	0
Interest payable and similar charges	7	(12,941)	(24,401)
Interest receivable and similar income	8	1,691	3,993
Profit/(Loss) on ordinary activities before taxation		4,502	(6,320)
Taxation	9	(2,553)	619
Profit/(Loss) for the financial year	20	1,949	(5,701)

A statement of movements on reserves is given in Note 20.

The notes on pages 16 to 26 form part of these financial statements.

All of the results of the company derive from continuing operations.

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Statement of total recognised gains and losses

	2009	2008
	£'000	£'000
Profit/(Loss) for the financial year	1,949	(5,701)
Total recognised profit/(loss) since last report	1,949	(5,701)

The notes on pages 16 to 26 form part of these financial statements.

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Balance sheet

	<i>Note</i>	2009	2008
		£'000	£'000
Fixed assets			
Tangible assets	<i>10</i>	189,584	182,978
Intangible assets	<i>11</i>	155,959	160,063
Investments	<i>12</i>	50	0
		345,593	343,041
Current assets			
Stocks	<i>13</i>	804	692
Debtors: Amounts falling due within one year	<i>14</i>	26,716	72,407
Debtors: Amounts falling due after one year	<i>14</i>	0	0
Cash at bank and in hand		4,686	45,028
Total current assets		32,206	118,127
Creditors: Amounts falling due within one year	<i>15</i>	(303,745)	(411,889)
Net current liabilities		(271,539)	(293,762)
Total assets less current liabilities		74,054	49,279
Creditors: Amounts falling due after one year	<i>16</i>	(5,000)	(33,026)
Provisions for liabilities and charges	<i>17</i>	(15,576)	(19,354)
Deferred income	<i>18</i>	(2,548)	(2,600)
Net Assets/(liabilities)		50,930	(5,701)
Capital and reserves			
Called up share capital - ordinary	<i>19</i>	54,682	0
Profit and loss account	<i>20</i>	(3,752)	(5,701)
Equity shareholders' funds/(deficit)	<i>21</i>	50,930	(5,701)

On behalf of the board of directors

P Ritson
Director

Date: 23 June 2010

Company registration number: NI 32809

The notes on pages 16 to 26 form part of these financial statements.

Phoenix Natural Gas Limited

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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's business activities, together with the factors likely to affect its future development and position, are set out in the Business Review section of the Directors' Report on pages 4 to 9.

The company and its immediate parent company, Phoenix Distribution Holdings Ltd., are guarantors to £275m 5.5% Bonds issued by the company's subsidiary, Phoenix Natural Gas Finance plc (PNGF) which are due for redemption in 2017. The Bond proceeds were loaned to the company to facilitate reorganisation of intercompany arrangements and thereby repay existing debt providers across the Kellen Group.

The company also entered into an £80m 3-year bank facility, guaranteed by PDHL, to finance future capital expenditure and working capital requirements of the company and its affiliate, Phoenix Supply Limited.

The PDHL Group (PDHL, PNGF & the company) is expected to continue to generate positive cash flows for the foreseeable future after setting aside interest payable under its intercompany loan from PNGF to facilitate interest payable under the PNGF Bonds and resources available to it under its banking arrangements.

The PDHL Group forecasts and projections, taking account of reasonable levels of possible changes in trading performance, show that it is capable of operating well within the level of its current facilities and also 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.

Revenue recognition

Turnover represents the invoiced value of goods supplied during the year excluding value added tax and intra group sales. Revenue includes an assessment of energy and transportation services supplied to customers between the date of the last meter reading and the year end.

Where revenue received or receivable exceeds the maximum amount permitted by regulatory agreement and adjustments will be made to future prices to reflect this over recovery, no liability is recognised as such an adjustment to future prices relates to the provision of future services.

Similarly no asset is recognised where a regulatory agreement permits adjustments to be made to future prices in respect of an under recovery.

Cash flow statement

In accordance with Financial Reporting Standard No.1, 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.

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1 Accounting policies (continued)

Intangible assets

The distribution licence is eliminated by amortisation through the profit and loss account over its useful economic life. The useful economic life of the asset shown in Note 11 has been estimated by the directors at forty years. FRS 10 "Goodwill and Intangible Assets" requires goodwill to be accounted for as an asset and amortised over its useful economic life.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental costs of acquisition. Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis, beginning with the year following expenditure, over the expected useful economic lives of the assets concerned.

The economic lives used are as follows:

	Years
Distribution mains -	60
Distribution services -	35
Distribution meters -	20
Office equipment and fixtures & fittings -	5

Debtors

Debtors are stated after provision has been made against all debts considered doubtful of collection.

Pensions

The company operates two defined contribution pension schemes and costs are accounted for on the basis of charging the pension costs over the period during which the company will benefit from the employee's services.

Turnover

Turnover represents the invoiced value of goods supplied during the year excluding value added tax. Revenue from gas sales is recognised upon delivery of the product to the customer.

Deferred taxation

Deferred tax is recognised in respect of 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. 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.

Foreign currencies

Transactions denominated in foreign currencies are translated at the exchange rate at the date of the transaction. All assets and liabilities denominated in foreign currencies are translated at the rate of exchange ruling at the balance sheet date. The resulting gain or loss is dealt with in the profit and loss account.

Stocks

Stock has been valued at the lower of cost and net realisable value.

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1 Accounting policies (continued)

Government grants

The European Regional Development Grant relates specifically to capital expenditure on the distribution pipeline and is treated as deferred income which is then credited to the profit and loss account over the related asset's useful life.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Cash Long Term Incentive Plan

The Kellen Group operates a long term incentive plan for certain key executives under which the amounts receivable are dependent on the value of the Kellen Acquisitions Limited (KAL) upon the sale of the KAL Group. This plan is treated as cash settled share-based in accordance with the provisions of FRS 20 Share-based Payments and the cost of the expected payment is recognised over the expected period of the plan.

Investments

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

2 Analysis of turnover and profits

Turnover and profits relate to the company's main activity of gas distribution which is carried out in Northern Ireland.

3 Net operating expenses

Net operating expenses were all considered to be administrative expenses.

4 Operating profit

This is stated after charging/(crediting):	2009	2008
	£'000	£'000
Depreciation – owned assets	5,462	5,200
Licence amortisation	4,104	4,104
European Regional Development Grant release	(52)	(52)
Operating lease rentals	991	966
Auditors' remuneration	14	9

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5 Employee information

The average number of persons employed by the company (including executive directors) analysed by category during the period was as follows:

	2009	2008
	No	No
Operational	70	73
Administration	36	36
	106	109

The aggregate staff costs of these persons were as follows:

	2009	2008
	£'000	£'000
Wages and salaries	3,812	3,954
Social security costs	443	452
Other pension costs	429	301
	4,684	4,707

6 Directors' remuneration

	2009	2008
	£'000	£'000
Emoluments	1,004	849
Amount receivable under long term incentive schemes	156	0
Company pension contributions	142	124
	1,302	973

Details in respect of the highest paid director are as follows:

	2009	2008
	£'000	£'000
Emoluments	470	461
Amount receivable under long term incentive schemes	75	0
Company pension contributions	0	0
	545	461

7 Interest payable and similar charges

	2009	2008
	£'000	£'000
Amounts payable on bank loans and overdrafts	1,219	2,853
Amounts payable on inter-company loans	11,603	21,062
Amounts payable on loan notes	0	480
Other	119	6
	12,941	24,401

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8 Interest receivable and similar income

	2009	2008
	£'000	£'000
Amounts receivable on bank deposits	334	1,460
Amounts receivable on inter-company loans	1,357	2,533
	1,691	3,993

9 Taxation charge

	2009	2008
	£'000	£'000
<i>Current tax</i>		
UK corporation tax for the period	4,154	(1,582)
Adjustments relating to earlier years	2,177	0
Total current tax charge/(credit)	6,331	(1,582)
<i>Deferred tax (see note 16)</i>		
Origination/reversal of timing differences	(1,635)	963
Effect of reduction in tax rate	0	0
Adjustments relating to earlier years	(2,143)	0
Total deferred tax (credit)/charge	(3,778)	963
Total tax charge/(credit)	2,553	(619)

The current tax charge for the period is higher than (2008: higher) the standard rate of corporation tax in the UK. The differences are explained below:

	2009	2008
	£'000	£'000
<i>Current tax reconciliation</i>		
(Loss) on ordinary activities before tax	4,502	(6,320)
Current tax at 28% (December 2008: 28.5%)	1,261	(1,801)
<i>Effects of:</i>		
Expenses not deductible for tax purposes	1,252	1,200
Capital allowances for period in excess of depreciation	1,515	(993)
Adjustment relating to earlier years	2,182	0
Other timing differences	121	12
Total current tax charge/(credit)	6,331	(1,582)

The directors are not aware of any factors that may have a significant impact on the future tax charge of the company.

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10 Tangible fixed assets

	Office equipment £'000	Furniture & fixtures £'000	Distribution system £'000	Transmission pipeline £'000	Total £'000
<i>Cost</i>					
At 1 January 2009	1,668	2,660	212,162	0	216,490
Additions	49	461	11,679	0	12,189
Disposals	0	0	(205)	0	(205)
At 31 December 2009	1,717	3,121	223,636	0	228,474
<i>Depreciation</i>					
At 1 January 2009	1,632	1,347	30,533	0	33,512
Charge for the year	77	144	5,241	0	5,462
Disposals	0	0	(84)	0	(84)
At 31 December 2009	1,709	1,491	35,690	0	38,890
<i>Net book value</i>					
At 31 December 2008	36	1,313	181,629	0	182,978
At 31 December 2009	8	1,630	187,946	0	189,584

11 Intangible fixed assets

	Licence fee £'000	Total £'000
<i>Cost</i>		
At 1 January 2009	164,167	164,167
Additions	0	0
Disposals	0	0
At 31 December 2009	164,167	164,167
<i>Amortisation</i>		
At 1 January 2009	4,104	4,104
Charge for the year	4,104	4,104
Disposals	0	0
At 31 December 2009	8,208	8,208
<i>Net book value</i>		
At 31 December 2008	160,063	160,063
At 31 December 2009	155,959	155,959

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11 Intangible fixed assets (continued)

The company has attributed fair values to the assets and liabilities transferred from Belfast Gas Transmission Limited in the prior year as follows:

	Book value £'000	Fair value adj £'000	Fair value £'000
Intangible fixed assets	0	164,167	164,167
Tangible fixed assets	177,465	0	177,465
Stock	649	0	649
Debtors	143,779	0	143,779
Cash	17,925	0	17,925
Debt	0	0	0
Creditors	(139,742)	0	(139,742)
Deferred Income	(2,652)	0	(2,652)
Deferred taxation	(18,391)	0	(18,391)
Net assets satisfied by inter-company	179,033	164,167	343,200

12 Investments

Shares in subsidiary undertakings	£'000	£'000
Cost and net book value at 1 January	0	0
Acquisition	50	0
Cost and net book value at 31 December	50	0

The company has an ordinary share investment in the following company as at 31 Dec 2009

Company name	Holding	Country of incorporation	Activity
Phoenix Natural Gas Finance plc	100%	Great Britain	note (i)

Note (i) During the year the company acquired the entire share capital of Phoenix Natural Gas Finance plc, a company set up to raise funds through a bond issue to support the long term financing requirements of the company.

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13 Stock

	2009	2008
	£'000	£'000
Stock of spares and meters	804	692

14 Debtors

	2009	2008
	£'000	£'000
<i>Amounts falling due within one year</i>		
Trade debtors	142	340
Amounts owed by parent company	3,989	51,821
Amounts owed by fellow subsidiary undertakings	14,468	14,643
Other debtors	744	594
Prepayments and accrued income	7,373	5,009
	26,716	72,407

15 Creditors

	2009	2008
	£'000	£'000
<i>Amounts falling due within one year</i>		
Trade creditors	2,129	3,424
Amounts owed to parent company	6,414	375,206
Amounts owed to fellow subsidiary undertakings	268,562	13,694
Other creditors	10,023	242
Corporation tax	0	0
Accruals and deferred income	16,617	19,323
	303,745	411,889

16 Creditors

	2009	2008
	£'000	£'000
<i>Amounts falling due between one and two years</i>		
Bank Loan	0	33,026
	0	33,026
<i>Amounts falling due between two and five years</i>		
Bank Loan	5,000	0
	5,000	0

- During the year the company's existing borrowings were refinanced through the issue of a bond held by Phoenix Natural Gas Finance plc. The amounts falling due between two and five years relate to new 3 year bank borrowings taken out separately by the company to finance future capital expenditure and working capital requirements.
- The company's borrowings are denominated in sterling.

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16 Creditors (continued)

- The fair value of financial assets and liabilities is the same as book value.
- The Bonds issued by its subsidiary, Phoenix Natural Gas Finance plc., are guaranteed by Phoenix Natural Gas (PNG) and Phoenix Distribution Holdings (PDHL) whilst the bank debt facilities entered into by PNG are also guaranteed by PDHL. The PDHL guarantees are supported by security over PDHL's assets, principally shares in PNG and an assignment of undertakings from the investors in Kellen Investments Limited (KIL) to PDHL supported by their shares in KIL.

17 Provisions for liabilities and charges

	2009	2008
	£'000	£'000
<i>Deferred taxation</i>		
Accelerated capital allowances	16,626	20,077
Short term timing differences	(1,050)	(723)
	15,576	19,354
<i>Deferred tax liability</i>		
	£'000	£'000
At 1 January 2009	19,354	0
(Credited)/Charged to profit and loss account	(3,778)	963
Transfer from fellow subsidiary on transfer of business	0	18,391
At 31 December 2009	15,576	19,354

18 Deferred income

	£'000
ERDF grant received	
At 1 January 2009	2,600
Credit to profit and loss account	(52)
At 31 December 2009	2,548

19 Called up share capital

	2009	2008
	£	£
<i>Allotted and fully paid:</i>		
Ordinary shares of £1 each	54,681,891	2

During the year 54,681,889 ordinary shares of £1 each were issued as part of the refinancing of the group .

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20 Reconciliation of movements in reserves

	2009	2008
	£'000	£'000
At 1 January 2009	(5,701)	0
Profit/(Loss) for the financial year	1,949	(5,701)
Revenue reserves carried forward	(3,752)	(5,701)

21 Reconciliation of movements in shareholders' funds

	2009	2008
	£'000	£'000
Opening shareholders' deficit	(5,701)	0
Ordinary share capital issued	54,682	0
Profit/(Loss) for the financial year	1,949	(5,701)
Closing shareholders' funds	50,930	(5,701)

22 Pension commitments

The group operates under the provision of two pension schemes:

- a. Group Personal Pension Scheme A – this is a defined contribution scheme set up to accommodate members transferring from the Water Companies' Pension Scheme. Enhanced employer contributions are made so as to align forecast benefits with those that would otherwise have accrued under the defined benefit Water Companies' Pension scheme. Separate life assurance is provided and paid by the company for all of these employees.
- b. Group Personal Pension Scheme B – this is a defined contribution scheme which the company contributes directly towards. Separate life assurance is provided and paid by the company for all of these employees.

The total contributions to the above schemes during the year were £429,506 (2008:£450,816).

23 Capital commitments

	2009	2008
	£'000	£'000
<i>Capital expenditure</i>		
Contracted for but not provided	4,586	3,811

24 Contingent liabilities

At 31 December 2009 the company had no contingent liabilities (31 December 2008: £nil).

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25 Financial commitments

At 31 December 2009 the company had annual commitments under non-cancellable operating leases expiring as follows:

	Motor Vehicles 2009 £'000	Motor Vehicles 2008 £'000	Property 2009 £'000	Property 2008 £'000
Within one year	12	32	0	0
Within two to five years	459	420	0	0
After five years	0	0	520	520
	471	452	520	520

26 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).

27 Ultimate controlling party

The immediate parent company and controlling company is Phoenix Distribution Holdings 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 Phoenix Natural Gas Limited is a member and for which group accounts are drawn up, copies of which can be obtained from the address above.

The directors regard TFCP Holdings Limited, a company registered in Guernsey, to be the ultimate parent company and controlling party.