

Phoenix Natural Gas Limited
Directors' Report and Financial Statements
Year ended 31 December 2010

Company number: NI 32809

Phoenix Natural Gas Limited
Directors' Report and Financial Statements
Year ended 31 December 2010

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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 2010

Directors' report

The directors present their report and the audited financial statements for the year ended 31 December 2010.

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. It also provides 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 3,091 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 139,000 customers have been connected to natural gas in the 14 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 Phoenix Natural Gas Finance plc, issuing £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 were rated 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 return 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.

Growth and Investment

Turnover of £39.5m in 2010 was £2.2m higher than that in 2009, generated mainly through the application of published conveyance charges to all gas distribution system users based on the volume 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

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Directors' report (Continued)

order to recover the maximum allowed income for each year within PNG's Price Control for the 5-year period ending on 31st December 2011 as determined by NIAUR.

Income generated was higher than the regulatory 'determined' level for 2010 because actual volumes were significantly higher than those used when setting distribution prices. Consequently an over recovery of income of £5.0m has been accumulated at the end of 2010 (compared to £3.3m surplus at end of 2009). This will be carried forward and returned to all system users through lower conveyance charges in subsequent years.

128.0 million therms (mt) of natural gas was transported through the network, 16.4mt more than 2009. Volumes are estimated to have been higher than forecast by 14.4mt because average temperatures across the year were 1.3 degrees centigrade colder than the 5 year average, with the extremely cold first quarter and last quarter making 2010 one of the coldest years in recent history. This compares to 2009 when volumes were 0.2mt higher than forecast as a result of temperatures being marginally colder than average.

Demand in the large industrial & commercial sector (those burning more than 25,000 therms per annum) rose by 5.3mt, largely due to growth in throughput at one specific new customer in 2010. Otherwise demand continues to be influenced by economic pressures on business customers and the continued focus on energy efficiency and environmental initiatives.

Elsewhere, throughput in the domestic and smaller industrial & commercial sectors rose by 11.3mt with demand driven by colder weather in 2010 together with an increasing number of customers connected to the network and some load growth within existing users.

Operating profits of £15.7m were £0.2m lower than in 2009 with the growth in distribution income being offset by increases in operating costs. Actual operating costs in PNG 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 each year this has been partially offset in 2010 by ongoing efficiencies being delivered by the business.

PNG invested a further £12.9m in capital expenditure during 2010, constructing 73km of new network and connecting 8,081 new customers. By year-end, PNG had 3,091km of network in operation, making gas available to 283,780 premises in its licence area, with a total of 138,754 (49%) 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 2010, 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 2010.

A 'peak day' for demand of 24.4 GWH was recorded on 21st December 2010, which compares to the 2009 'peak day' of 18.3 GWH. However it should be noted that in 2010 throughput on this peak day was driven by exceptionally low temperatures (-10.1 degrees centigrade) compared to the temperatures on the previous 2009 peak day of +0.8 degrees centigrade.

PNG, on behalf of the Group, was recognised for its contribution to the environment by being awarded 1st quintile accreditation in the prestigious Arena Network Annual Environmental Awards, which means that the Group's performance is recognised as exemplary when compared against to other organisations throughout Northern Ireland. In addition its operational procedures in the areas of environmental performance and occupational health and safety were re-affirmed by successfully retaining accreditations of both 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 remove the cap on the number of pay as you go (PAYG) meters that it is allowed within its regulatory cost base. PAYG meters are widely requested by consumers in the PNG Licence area and as a result are now provided to 50% of the connected customer base. In addition the ring fencing conditions, which were implemented through a licence modification in 2009, came into full effect in 2010. A key requirement of these conditions was to ensure that the majority of the directors in PNG were non executive, an obligation that has now been fulfilled. These conditions bring PNG in line with other regulated utilities within Northern Ireland and the rest of the UK.

Market Overview and Outlook

The Northern Ireland Housing Executive (NIHE), is the body responsible for all of Northern Ireland's public housing. Over the last 15 years PNG has been involved in helping develop heating replacement programs in line with the development of the natural gas infrastructure. A high proportion of available NIHE properties have already been connected to natural gas and the number of new connections in this sector is planned to slow down over the forthcoming years.

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Directors' report (Continued)

Within the new build housing market, 2010 saw a continued slowdown in activity, both in terms of house sales as well as new housing schemes getting started. However PNG has seen a build-up of new schemes within the planning system, many of which have been re-worked to make them economic. Therefore based on its success at capturing virtually all new developments within its licence area to date, PNG is well positioned to provide natural gas to all new housing projects in Greater Belfast during 2011 and beyond, once the market conditions become more favourable.

In the owner occupied sector PNG, whilst having met all its obligations regarding the provision of gas network, continues to expand in owner occupied areas. Further investment is planned throughout 2011 to extend the gas network in established private residential areas where a strong propensity for customers to convert can be demonstrated.

In 2011 PNG plans to invest in a further 70km of new distribution network to bring the opportunity of natural gas to a further 8,000 potential new customers as well as undertaking a strategic reinforcement of its system in a key industrial area of Belfast due to future expected increases in demand.

PNG has established a large network of manufacturers, distributors, merchants, retailers, and installers throughout its Licence area. This network focuses on meeting the needs of new users and developing incentives and offers to encourage customers to switch to natural gas. Through its ongoing relationship with Government agencies, PNG maximises consumer opportunities provided by Government funded schemes, such as 'Warm Homes', "Cosy Homes", "Healthy Homes", "Snug Plus" - converting the fuel poor to a modern and efficient natural gas heating system. PNG continues to lobby for the introduction of a 'Boiler Scrappage' scheme similar to the scheme, which has been made 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.

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 loss for the financial year is £1,370,351 (2009: profit £1,948,530). No dividend is recommended.

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Directors' report (Continued)

Political and charitable donations

The company made charitable donations amounting to £21,177 during the year (2009: £16,244).

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.

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 21 days (2009: 26 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

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Directors' report (Continued)

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: 23rd June 2011

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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



P Ritson
Director

Date: 23rd June 2011

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 2010 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 10, 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

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/private.cfm.

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 2010 and of its loss 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.

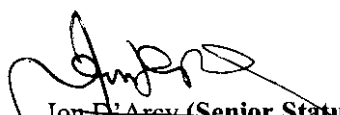
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Independent auditors' report (Continued)

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

23 June 2011

Phoenix Natural Gas Limited
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Profit and loss account

| | <i>Note</i> | 2010 | 2009 |
|---|-------------|----------------|---------------|
| | | £'000 | £'000 |
| Turnover | 2 | 39,529 | 37,307 |
| Cost of sales | | 0 | 0 |
| Gross profit | | 39,529 | 37,307 |
| Net operating expenses | 3 | (23,875) | (21,434) |
| Operating profit | 4 | 15,654 | 15,873 |
| Loss on sale of fixed asset | | (44) | (121) |
| Interest payable and similar charges | 7 | (17,100) | (12,941) |
| Interest receivable and similar income | 8 | 352 | 1,691 |
| (Loss)/Profit on ordinary activities before taxation | | (1,138) | 4,502 |
| Taxation | 9 | (234) | (2,553) |
| (Loss)/Profit for the financial year | 20 | (1,372) | 1,949 |

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

The notes on pages 16 to 25 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

| | 2010 | 2009 |
|---|----------------|--------------|
| | £'000 | £'000 |
| (Loss)/Profit for the financial year | (1,372) | 1,949 |
| Total recognised (Loss)/Profit since last report | (1,372) | 1,949 |

The notes on pages 16 to 25 form part of these financial statements.

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Balance sheet

| | <i>Note</i> | 2010 £'000 | 2009 £'000 |
|--|-------------|------------------|------------------|
| Fixed assets | | | |
| Tangible assets | <i>10</i> | 196,699 | 189,584 |
| Intangible assets | <i>11</i> | 151,855 | 155,959 |
| Investments | <i>12</i> | 50 | 50 |
| | | 348,604 | 345,593 |
| Current assets | | | |
| Stocks | <i>13</i> | 1,091 | 804 |
| Debtors: Amounts falling due within one year | <i>14</i> | 32,418 | 26,716 |
| Debtors: Amounts falling due after one year | <i>14</i> | 0 | 0 |
| Cash at bank and in hand | | 11,366 | 4,686 |
| Total current assets | | 44,875 | 32,206 |
| Creditors: Amounts falling due within one year | <i>15</i> | (325,656) | (303,745) |
| Net current liabilities | | (280,781) | (271,539) |
| Total assets less current liabilities | | 67,823 | 74,054 |
| Creditors: Amounts falling due after one year | <i>16</i> | 0 | (5,000) |
| Provisions for liabilities and charges | <i>17</i> | (15,751) | (15,576) |
| Deferred income | <i>18</i> | (2,514) | (2,548) |
| Net Assets | | 49,558 | 50,930 |
| Capital and reserves | | | |
| Called up share capital - ordinary | <i>19</i> | 54,682 | 54,682 |
| Profit and loss account | <i>20</i> | (5,124) | (3,752) |
| Equity shareholders' funds | <i>21</i> | 49,558 | 50,930 |

On behalf of the board of directors



P Ritson
Director

Date: 23rd June 2011

Company registration number: NI 32809

The notes on pages 16 to 25 form part of these 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'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 of 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 in 2009, 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): | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Depreciation – owned assets | 5,785 | 5,462 |
| Licence amortisation | 4,104 | 4,104 |
| European Regional Development Grant release | (34) | (52) |
| Operating lease rentals | 969 | 991 |
| Auditors' remuneration | 14 | 14 |

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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:

| | 2010 | 2009 |
|----------------|-------------|-------------|
| | No | No |
| Operational | 79 | 70 |
| Administration | 37 | 36 |
| | 116 | 106 |

The aggregate staff costs of these persons were as follows:

| | 2010 | 2009 |
|-----------------------|--------------|--------------|
| | £'000 | £'000 |
| Wages and salaries | 4,256 | 3,812 |
| Social security costs | 527 | 443 |
| Other pension costs | 483 | 429 |
| | 5,266 | 4,684 |

6 Directors' remuneration

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Emoluments | 772 | 1,004 |
| Amount receivable under long term incentive schemes | 140 | 156 |
| Company pension contributions | 99 | 142 |
| | 1,011 | 1,302 |

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

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Emoluments | 250 | 470 |
| Amount receivable under long term incentive schemes | 39 | 75 |
| Company pension contributions | 0 | 0 |
| | 289 | 545 |

7 Interest payable and similar charges

| | 2010 | 2009 |
|--|---------------|---------------|
| | £'000 | £'000 |
| Amounts payable on bank loans and overdrafts | 969 | 1,219 |
| Amounts payable on inter-company loans | 15,435 | 11,603 |
| Amounts payable on loan notes | 0 | 0 |
| Other | 696 | 119 |
| | 17,100 | 12,941 |

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8 Interest receivable and similar income

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| Amounts receivable on bank deposits | 15 | 334 |
| Amounts receivable on inter-company loans | 337 | 1,357 |
| | 352 | 1,691 |

9 Taxation charge

| | 2010 | 2009 |
|--|--------------|----------------|
| | £'000 | £'000 |
| <i>Current tax</i> | | |
| UK corporation tax for the period | 28 | 4,154 |
| Adjustments relating to earlier years | 31 | 2,177 |
| Total current tax charge/(credit) | 59 | 6,331 |
| <i>Deferred tax (see note 16)</i> | | |
| Origination/reversal of timing differences | 789 | (1,635) |
| Effect of reduction in tax rate | (583) | 0 |
| Adjustments relating to earlier years | (31) | (2,143) |
| Total deferred tax (credit)/charge | 175 | (3,778) |
| Total tax charge/(credit) | 234 | 2,553 |

The current tax charge for the period is higher than (2009: higher) the standard rate of corporation tax in the UK. The differences are explained below:

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| <i>Current tax reconciliation</i> | | |
| (Loss) on ordinary activities before tax | (1,138) | 4,502 |
| Current tax at 28% (December 2009: 28%) | (319) | 1,261 |
| <i>Effects of:</i> | | |
| Expenses not deductible for tax purposes | 1,136 | 1,252 |
| Capital allowances for period in excess of depreciation | (789) | 1,515 |
| Adjustment relating to earlier years | 31 | 2,182 |
| Other timing differences | 0 | 121 |
| Total current tax charge/(credit) | 59 | 6,331 |

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 2010 | 1,717 | 3,121 | 223,636 | 0 | 228,474 |
| Additions | 90 | 52 | 12,802 | 0 | 12,944 |
| Disposals | 0 | 0 | (76) | 0 | (76) |
| At 31 December 2010 | 1,807 | 3,173 | 236,362 | 0 | 241,342 |
| <i>Depreciation</i> | | | | | |
| At 1 January 2010 | 1,709 | 1,491 | 35,690 | 0 | 38,890 |
| Charge for the year | 104 | 141 | 5,540 | 0 | 5,785 |
| Disposals | 0 | 0 | (32) | 0 | (32) |
| At 31 December 2010 | 1,813 | 1,632 | 41,198 | 0 | 44,643 |
| <i>Net book value</i> | | | | | |
| At 31 December 2009 | 8 | 1,630 | 187,946 | 0 | 189,584 |
| At 31 December 2010 | (6) | 1,541 | 195,164 | 0 | 196,699 |

11 Intangible fixed assets

| | Licence fee £'000 | Total £'000 |
|-----------------------|----------------------|----------------|
| <i>Cost</i> | | |
| At 1 January 2010 | 164,167 | 164,167 |
| Additions | 0 | 0 |
| Disposals | 0 | 0 |
| At 31 December 2010 | 164,167 | 164,167 |
| <i>Amortisation</i> | | |
| At 1 January 2010 | 8,208 | 8,208 |
| Charge for the year | 4,104 | 4,104 |
| Disposals | 0 | 0 |
| At 31 December 2010 | 12,312 | 12,312 |
| <i>Net book value</i> | | |
| At 31 December 2009 | 155,959 | 155,959 |
| At 31 December 2010 | 151,855 | 151,855 |

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12 Investments

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

The company has an ordinary share investment in the following company as at 31 Dec 2010

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

Note (i) In 2009 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.

13 Stock

| | 2010 | 2009 |
|-----------------------------------|--------------|--------------|
| | £'000 | £'000 |
| Stock of spares and meters | 1,091 | 804 |

14 Debtors

| | 2010 | 2009 |
|--|---------------|---------------|
| | £'000 | £'000 |
| <i>Amounts falling due within one year</i> | | |
| Trade debtors | 217 | 142 |
| Amounts owed by parent company | 1,573 | 3,989 |
| Amounts owed by fellow subsidiary undertakings | 22,467 | 14,468 |
| Other debtors | 781 | 744 |
| Prepayments and accrued income | 7,380 | 7,373 |
| | 32,418 | 26,716 |

15 Creditors

| | 2010 | 2009 |
|--|----------------|----------------|
| | £'000 | £'000 |
| <i>Amounts falling due within one year</i> | | |
| Trade creditors | 1,837 | 2,129 |
| Amounts owed to parent company | 30 | 6,414 |
| Amounts owed to fellow subsidiary undertakings | 279,094 | 268,562 |
| Other creditors | 11,610 | 10023 |
| Corporation tax | 0 | 0 |
| Accruals and deferred income | 33,085 | 16,617 |
| | 325,656 | 303,745 |

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16 Creditors

| | 2010 | 2009 |
|---|--------------|--------------|
| | £'000 | £'000 |
| <i>Amounts falling due between one and two years</i> | | |
| Bank Loan | 0 | 0 |
| | 0 | 0 |
| <i>Amounts falling due between two and five years</i> | | |
| Bank Loan | 0 | 5,000 |
| | 0 | 5,000 |

- During the prior year the company's existing borrowing 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.
- 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

| | 2010 | 2009 |
|---|---------------|---------------|
| | £'000 | £'000 |
| <i>Deferred taxation</i> | | |
| Accelerated capital allowances | 16,826 | 16,626 |
| Short term timing differences | (1,075) | (1,050) |
| | 15,751 | 15,576 |
| <i>Deferred tax liability</i> | | |
| | £'000 | £'000 |
| At 1 January 2010 | 15,576 | 19,354 |
| (Credited)/Charged to profit and loss account | 175 | (3,778) |
| Transfer from fellow subsidiary on transfer of business | 0 | 0 |
| At 31 December 2010 | 15,751 | 15,576 |

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18 Deferred income

| | £'000 |
|-----------------------------------|--------------|
| ERDF grant received | |
| At 1 January 2010 | 2,548 |
| Credit to profit and loss account | (34) |
| At 31 December 2010 | 2,514 |

19 Called up share capital

| | 2010 | 2009 |
|---------------------------------|-------------|-------------|
| | £ | £ |
| <i>Allotted and fully paid:</i> | | |
| Ordinary shares of £1 each | 54,681,891 | 54,681,891 |

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

20 Reconciliation of movements in reserves

| | 2010 | 2009 |
|---|----------------|----------------|
| | £'000 | £'000 |
| At 1 January 2010 | (3,752) | (5,701) |
| (Loss)/Profit for the financial year | (1,372) | 1,949 |
| Revenue reserves carried forward | (5,124) | (3,752) |

21 Reconciliation of movements in shareholders' funds

| | 2010 | 2009 |
|---------------------------------------|---------------|---------------|
| | £'000 | £'000 |
| Opening shareholders' funds/(deficit) | 50,930 | (5,701) |
| Ordinary share capital issued | 0 | 54,682 |
| (Loss)/Profit for the financial year | (1,372) | 1,949 |
| Closing shareholders' funds | 49,558 | 50,930 |

22 Pension commitments

There are two pension schemes available to employees of the company:

- 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 £483,533 (2009:£429,506).

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23 Capital commitments

| | 2010 | 2009 |
|---------------------------------|--------------|--------------|
| | £'000 | £'000 |
| <i>Capital expenditure</i> | | |
| Contracted for but not provided | 2,966 | 4,586 |

24 Contingent liabilities

At 31 December 2010 the company had no contingent liabilities (31 December 2009: £nil).

25 Financial commitments

At 31 December 2010 the company had annual commitments under non-cancellable operating leases expiring as follows:

| | Motor Vehicles 2010 £'000 | Motor Vehicles 2009 £'000 | Property 2010 £'000 | Property 2009 £'000 |
|--------------------------|--|--|------------------------------------|------------------------------------|
| Within one year | 56 | 12 | 0 | 0 |
| Within two to five years | 470 | 459 | 0 | 0 |
| After five years | 0 | 0 | 520 | 520 |
| | 526 | 471 | 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.