

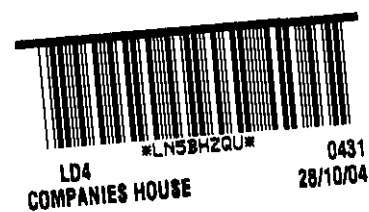
**CENTRICA RESOURCES (ARMADA) LIMITED**

## ANNUAL REPORT AND ACCOUNTS

**FOR THE YEAR ENDED**

**31 DECEMBER 2003**

**REGISTERED NO: 04181384**



## **Centrica Resources (Armada) Limited**

### **DIRECTORS' REPORT**

The Directors present their report and the audited accounts of Centrica Resources (Armada) Limited ("the Company") for the year ended 31 December 2003. The comparative period is for the year ended 31 December 2002.

#### **Principal activities**

The principal activities of the Company comprise the exploration, development and production of oil and gas reserves. Principal areas of activity are the United Kingdom sector of the North Sea.

#### **Financial results and business review**

The Company's profit for the year ended 31 December 2003 of £1,886,000 (Loss for the period ended 31 December 2002: £1,365,000) has been transferred to reserves.

Oil and liquids production averaged 978 barrels per day (net) for the year ended 31 December 2003 (year ended 31 December 2002: 1,213 barrels per day (net)). Gas production averaged 18.88 million cubic feet per day (net) for the year ended 31 December 2003 (year ended 31 December 2002: 26.99 million cubic feet per day (net)).

There are no plans to change the nature of activities in the foreseeable future.

#### **Dividends**

The directors do not recommend the payment of a dividend for the year ended 31 December 2003 (Year ended 31 December 2002: £Nil).

#### **Directors**

The following served as directors during the year:

David Clarke	resigned 17 September 2003
Michael John Garstang	
Anthony Charles Henshaw	
Jacob Ulrich	
Sarwjit Sambhi	appointed 17 September 2003

On 15th July 2004 Anthony Charles Henshaw resigned as a director. On 5 August 2004 Peter Cole was appointed as a director.

## Centrica Resources (Armada) Limited

### DIRECTORS' REPORT (continued)

#### Directors' interests

At no time during the year ended 31 December 2003, did any director have any interest in the shares of the Company or any other company in the Centrica plc group, except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below.

The Directors with interests in ordinary shares of Centrica plc during the year (which include those of their families), and who were holding office at the year end are as follows:

#### Interests in ordinary shares

	As at 1 January 2003	As at 31 December 2003
David Clarke	40,891	68,086
Michael Garstang	246	246
Anthony Henshaw	476	8,056
Jacob Ulrich	491,495	512,588

The figures above include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the Centrica share incentive plan (SIP).

#### Sharesave scheme

	As at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 December 2003
David Clarke	10,799	8,823	3,741	7,058	8,823
Anthony Henshaw	7,580	8,823	7,580		8,823
Jacob Ulrich	-	8,823	-	-	8,823

Options over shares in Centrica plc granted in June 1998, June 2000, April 2001, April 2002 and April 2003 were at an option price of 92.2, 202.6, 191.0, 177.6 and 107.1 pence per share respectively.

## Centrica Resources (Armada) Limited

### DIRECTORS' REPORT (continued)

#### Long term incentive scheme

	As at 1 January 2003	Granted during the period	Exercised during the period	Lapsed during the period	As at 31 December 2003
David Clarke	184,417	45,608	38,330	11,811	179,884
Michael Garstang	68,851	31,739	-	7,086	93,504
Anthony Henshaw	114,378	43,065	-	8,860	148,583
Sarwjit Sambhi	83,840	67,846	-	-	151,686
Jacob Ulrich	1,003,903	239,064	272,572	56,094	914,301

Notional allocations of shares were made on 1 April 2002 at a base price of 224.7 pence. Figures as at 31 December 2003 shown above include notional allocations of shares subject to performance conditions and for David Clarke and Jacob Ulrich allocations of shares that have reached the conclusion of the relevant performance period but will not be transferred until the expiry of the retention period (a further year).

#### Centrica Executive Share Option Scheme

	As at 1 January 2003	Granted during the year	As at 31 December 2003
David Clarke	102,176	83,219	185,395
Sarwjit Sambhi	82,295	126,193	208,488
Jacob Ulrich	724,439	593,451	1,317,890

Options were granted on 31 May 2001 and 2 April 2002 under the terms of the Centrica Executive Share Option Scheme at an option price of 240.05 and 224.8 pence. The options will become exercisable, to the extent that performance conditions are satisfied, three years after the date of the grant and remain exercisable until the tenth anniversary of the grant.

Options were granted under the terms of the ultimate parent company's Savings Related Share Option Scheme and New Executive Share Option, and allocations made under the terms of the Long Term Incentive Scheme and Share incentive plan. Details of these schemes can be found in the accounts of Centrica plc.

The closing price of a Centrica ordinary share on the last trading day of 2003 (31 December) was 211.0 pence. The range during the year ended 31 December 2003 was 212.75 pence (high) and 131.5 pence (low).

## Centrica Resources (Armada) Limited

### DIRECTORS' REPORT (CONTINUED)

#### Creditor payment policy

The Company aims to pay all of its creditors promptly. For trade creditors, it is the Company's policy to:

- i) agree the terms of the payment at the start of business with that supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

#### Directors' insurance

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

#### Auditors

PricewaterhouseCoopers LLP have expressed their willingness to be re-appointed as auditors of the company.

By order of the Board



R J Healy

For and on behalf of  
Centrica Secretaries Limited  
(Company Secretary)

Date: 27 October 2004

Registered Office: Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD

**Centrica Resources (Armada) Limited**

**STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING  
THE FINANCIAL STATEMENTS**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of the affairs of the Company as at the end of the financial period and of the profit or loss for the financial period.

The Directors consider that in preparing the financial statements on pages 7 to 17, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The Directors 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.

## Centrica Resources (Armada) Limited

### INDEPENDENT AUDITORS REPORT TO THE SHAREHOLDER OF CENTRICA RESOURCES (ARMADA) LIMITED

We have audited the financial statements which comprise the profit and loss account, the balance sheet, and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

#### Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

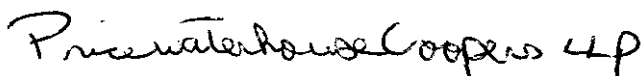
#### Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### Opinion

In our opinion, the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2003 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP  
Chartered Accountants and Registered Auditors  
1 Embankment Place  
London WC2N 6RH

Date: 27 October 2004

**Centrica Resources (Armada) Limited**

**PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2003**

		Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
	Note		
Turnover	2	20,678	25,536
Cost of sales		<u>(13,453)</u>	<u>(18,191)</u>
<b>Operating profit</b>		7,225	7,345
Interest payable and similar charges	3	<u>(64)</u>	<u>(82)</u>
<b>Profit on ordinary activities before taxation</b>	4	7,161	7,263
Tax on profit on ordinary activities	5	<u>(5,275)</u>	<u>(8,628)</u>
<b>Retained profit/(loss) for the financial period</b>		<u>1,886</u>	<u>(1,365)</u>

All activities relate to continuing operations.

There were no recognised gains and losses other than those shown above.

The notes on pages 9 to 17 form part of these financial statements.

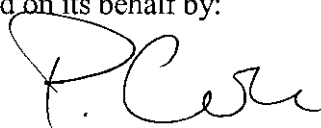


**Centrica Resources (Armada) Limited**

**BALANCE SHEET AS AT 31 DECEMBER 2003**

	Note	As at 31 December 2003 £'000	As at 31 December 2002 £'000
<b>Fixed assets</b>			
Tangible fixed assets	6	16,980	31,424
<b>Current assets</b>			
Stock	7	8	2
Debtors (amount falling due within one year)	8	37,340	19,000
Cash		<u>-</u>	<u>39</u>
		37,348	19,041
<b>Creditors (amounts falling due within one year)</b>	9	<u>(6,159)</u>	<u>(2,830)</u>
<b>Net current assets</b>		<u>31,189</u>	<u>16,211</u>
<b>Total assets less current liabilities</b>		48,169	47,635
<b>Provisions for liabilities and charges</b>	10	<u>(4,048)</u>	<u>(5,400)</u>
<b>Net assets</b>		<u>44,121</u>	<u>42,235</u>
<b>Capital and reserve</b>			
Called up share capital	12	42,926	42,926
Profit and loss account	13	<u>1,195</u>	<u>(691)</u>
<b>Equity shareholder's funds</b>	14	<u>44,121</u>	<u>42,235</u>

The accounts on pages 7 to 17 were approved by the Board of Directors on 27 October 2004 and were signed on its behalf by:



Peter Cole (Director)

The notes on pages 9 to 17 form part of these financial statements.

## **Centrica Resources (Armada) Limited**

### **NOTES TO THE ACCOUNTS**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985. The accounting policies, where applicable, are materially in accordance with the SORP issued by the Oil Industry Accounting Committee entitled Accounting for Oil and Gas Exploration, Development, Production and Decommissioning Activities.

#### **1 Principal accounting policies**

##### **a) Exemptions**

As the Company is a wholly owned subsidiary of GB Gas Holdings Limited which is a wholly owned subsidiary of Centrica plc, the Company has taken advantage of the exemptions within Financial Reporting Standard No. 1 "Cash Flow Statements" from presenting a cash flow statement and within Financial Reporting Standard No. 8 "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group.

##### **b) Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes.

Where the Company has ongoing obligations to provide services, revenues are apportioned on a time basis, and those monies received in advance are treated as deferred income and excluded from current turnover.

##### **c) Cost of sales**

Cost of sales include the cost of gas produced, and related transportation and royalty costs, bought in materials and services, and direct labour and related overheads on installation works, repairs and service contracts.

##### **d) Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the profit and loss account. All other exchange movements are dealt with through the profit and loss account.

## NOTES TO THE ACCOUNTS (continued)

### 1 Principal accounting policies (continued)

#### e) Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Freehold land is not depreciated. Other tangible fixed assets, except exploration and production assets, are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives.

Exploration and production assets are depreciated from the commencement of production in the fields concerned, using the successful efforts and unit of production methods, based on all of the proven and probable reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production is compared on a field-by-field basis with the likely future net revenues to be derived from the estimated remaining commercial reserves. A provision is made where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues.

#### f) Decommissioning costs

Provision is made for the net present cost of decommissioning gas production facilities. A corresponding tangible fixed asset is recognised in respect of the decommissioning costs, based on price levels and technology at the balance sheet date. This asset is amortised using the unit of production method, based on proved and probable developed reserves. Notional interest charges arise over time, based upon the discounted decommissioning liabilities.

#### g) Stocks

Stocks are valued at the lower of cost and net realisable value.

#### h) Taxation

Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is recognised in respect of all 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 profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

## NOTES TO THE ACCOUNTS (continued)

### 1 Principal accounting policies (continued)

#### h) Taxation (continued)

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

#### i) Long term incentive scheme

The cost of potential share awards under the Group's long-term incentive schemes is charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes National Insurance charges expected to arise at exercise dates.

### 2 Segmental analysis

Turnover relates to the principal activity of the business and arose wholly in the United Kingdom.

**Centrica Resources (Armada) Limited**

**NOTES TO THE ACCOUNTS (continued)**

**3 Interest**

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Interest payable and similar charges:		
Bank and overdraft interest		
Other interest payable	12	22
Notional interest arising on discounted items	<u>52</u>	<u>60</u>
	<u>64</u>	<u>82</u>

**4 Profit on ordinary activities before taxation**

Profit on ordinary activities before taxation is stated after charging:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Depreciation and amortisation	7,336	9,813
Auditors' remuneration – audit fees	<u>5</u>	<u>5</u>

i) Directors' remuneration

None of the directors received any remuneration with respect to services for the Company.

All of the Directors who were in office at 31 December 2003 are members of the ultimate parent company's defined benefit pension scheme.

ii) Employee costs and numbers

The Company does not have any employees.

**Centrica Resources (Armada) Limited**

**NOTES TO THE ACCOUNTS (continued)**

**5 Tax on profit on ordinary activities**

The tax charge is based on the profit for the period and comprises:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Current tax - UK corporation tax at 40%	6,264	5,221
Deferred tax - Current period	(2,215)	(1,639)
- Exceptional charge		821
- Prior period	<u>1,226</u>	<u>4,225</u>
Taxation charge	<u>5,275</u>	<u>8,628</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before tax	<u>7,161</u>	<u>7,263</u>
Tax on profit on ordinary activities at standard UK corporation tax rate of 30%	2,148	2,179
Effects of:		
- Expenses not deductible for tax purposes	961	(231)
- Utilisation of timing differences	(77)	(24)
- Depreciation in excess of capital allowances	1,661	2,298
- Supplementary charge on ring-fenced offshore gas production	<u>1,571</u>	<u>999</u>
Current tax charge for the period	<u>6,264</u>	<u>5,221</u>

**Centrica Resources (Armada) Limited**

**NOTES TO THE ACCOUNTS (continued)**

**6 Fixed assets**

**Exploration  
Development &  
Production  
£'000**

**Cost**

As at 1 January 2003	42,805
Disposals	<u>(7,108)</u>
As at 31 December 2003	35,697

**Depreciation and amortisation**

As at 1 January 2003	11,381
Charge for the year	<u>7,336</u>
As at end 31 December 2003	18,717

Net book value as at 31 December 2003	<b>16,980</b>
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Net book value as at 31 December 2002	<u><b>31,424</b></u>
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The net book value of the Company's decommissioning costs at 31 December 2003 were £770,000 (2002: £1,319,000)

**7 Stock**

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
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Other raw materials and consumables	<u><u>8</u></u>	<u><u>2</u></u>
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**Centrica Resources (Armada) Limited**

**NOTES TO THE ACCOUNTS (continued)**

**8 Debtors**

	As at 31 December 2003 £'000 within one year	As at 31 December 2002 £'000 within one year
Amounts falling due		
Amount due from group undertaking	36,641	17,582
Other debtors	<u>699</u>	<u>1,418</u>
	<u>37,340</u>	<u>19,000</u>

**9 Creditors (amounts falling due within one year)**

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
Taxation and social security	5,485	2,222
Overdraft	28	-
Accruals and deferred income	<u>646</u>	<u>608</u>
	<u>6,159</u>	<u>2,830</u>

**10 Provisions for liabilities and charges**

	Decommissioning Costs £000	Deferred CT £000	Total £000
As at 1 January 2003	2,119	3,281	5,400
Revisions	(105)	-	(105)
Profit and loss charge	<u>(258)</u>	<u>(989)</u>	<u>(1,247)</u>
As at 31 December 2003	<u>1,756</u>	<u>2,292</u>	<u>4,048</u>

Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing lives. The estimate has been based on proven and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependent on the life of field and is anticipated to occur in 2014.



# Centrica Resources (Armada) Limited

## NOTES TO THE ACCOUNTS (continued)

### 11 Deferred taxation

A deferred tax provision has been made in respect of accelerated capital allowances and other timing differences, net of recognised deferred tax assets. As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the balance sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised on the balance sheet. As encouraged by FRS 19, deferred tax asset recognition will be regularly reassessed.

Movement on the deferred corporation tax asset in the period is analysed below:

	2003 £'000	2002 £'000
At the beginning of the period	3,281	(126)
Profit and loss charge	(989)	3,407
As at 31 December	<u>2,292</u>	<u>3,281</u>

Deferred tax liability/(asset) at 40% (2002:40%) is analysed as follows:

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
Accelerated capital allowances	<u>2,292</u>	<u>3,281</u>

There is an unrecognised deferred tax asset at 31 December 2003 of £nil (2002: recognised £848,000) in respect of other timing differences.

### 12 Share capital

	As at 31 December 2003 £'000	As at 31 December 2002 £'000
<b>Authorised:</b>		
45,000,000 ordinary shares of £1 each	<u>45,000</u>	<u>45,000</u>
<b>Allotted, called up and fully paid:</b>		
42,926,001 ordinary shares of £1 each	<u>42,926</u>	<u>42,926</u>

**Centrica Resources (Armada) Limited**

**NOTES TO THE ACCOUNTS (continued)**

**13 Reserves**

**Profit and  
Loss account  
2003  
£'000**

At beginning of year	(691)
Transfer from profit and loss account for the year	<u>1,886</u>
At end of year	<u>1,195</u>

**14 Reconciliation of movements in shareholder's funds**

	2003 £'000	2002 £'000
Profit/(loss) for the financial period	1,886	(1,365)
Shareholder's funds as at beginning of the year	<u>42,235</u>	<u>43,600</u>
Shareholder's funds as at 31 December	<u>44,121</u>	<u>42,235</u>

**15 Commitments and contingent liabilities**

**Capital expenditure**

The Company has no contingent liabilities other than those arising in the ordinary course of business.

Contracted future capital expenditure as at 31 December 2003 was £Nil (As at 31 December 2002: £Nil).

**16 Ultimate holding company**

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited a wholly owned subsidiary undertaking of Centrica plc, a company registered in England, which is the ultimate holding company. Copies of the accounts of Centrica plc are available from the Company Secretary at the following address: Company Secretary, Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

**Centrica Resources (Armada) Limited**

**GAS & LIQUID RESERVES (unaudited)**

The principal field in the UK is Armada.

**Estimated net proven and probable reserves of gas (billion cubic feet)**

UK

As at 1 January 2003	31
Revisions of previous estimates	(1)
Production	(7)
Sale of reserves	<u>(5)</u>
As at 31 December 2003	<u>18</u>

**Estimated net proven and probable reserves of liquids (million barrels)**

UK

As at 1 January 2002	1
Revisions of previous estimates	-
Production	<u>-</u>
As at 31 December 2002	<u>1</u>

Liquids reserves includes condensate, propane butane and oil.