

Centrica Offshore UK Limited
Annual report for the year ended 31 December 2004

Registered Number: 04248952



Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2004

The directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2004.

Principal activities

The principal activity of the Company is the production of gas in the United Kingdom. The Company holds the production licence for the Rough field. For the purposes of the Companies Act 1985, this constitutes one class of business.

Review of business and future developments

The Rough facility is currently used as a storage facility by the immediate parent company. The Company has the right to extract the remaining gas once storage has finished, expected to be around 2027. The Company also sells the condensate produced as a consequence of operating as a storage facility. Sales are recognised in the profit and loss account during the year.

The Directors anticipate that the Company will continue to make losses on an annual basis due to the impact of the finance charge in relation to the unwinding of the decommissioning liability. The ultimate parent company, Centrica plc, has indicated that it will support the Company to meet its liabilities and obligations as they fall due. The Directors consider that all assets are fully recoverable.

Review of results and dividend

The results for the year are set out in the profit and loss account on page 6. The retained loss for the year of £1,632,000 (2003: £1,629,000) has been transferred from reserves. The directors do not recommend the payment of a dividend in respect of the year (2003: £nil).

Directors

Directors during the year and up to the date of this report were as follows:

| | Appointed | Resigned |
|--------------|-------------------|-------------------|
| G S Stoker | 14 November 2002 | 27 September 2004 |
| G E Sibbick | 27 September 2004 | -- |
| B D Walker | -- | -- |
| M J Garstang | -- | -- |

Directors' interests in shares

At no time during the year did any Director holding office at 31 December 2004 have any interests in the shares of the Company (31 December 2003: nil) or any other company within the Centrica plc group except for the interests in, and the options over, the shares of the ultimate parent company, Centrica plc.

Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2004 (continued)

Beneficial interest in ordinary shares

| | As at 31 December 2004 | As at 31 December 2003 |
|--------------|---------------------------|---------------------------|
| M J Garstang | --- | 246 |
| G E Sibbick | 363 | 142* |
| B D Walker | 3,587 | 2,834 |

* As at date of appointment

The above figures include shares held under the terms of the Centrica Share Incentive Plan.

On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of 9 new ordinary shares of 6 14/81 pence per share for every 10 existing ordinary shares of 5 5/9 pence per share. Shares shown at 31 December 2003 are on a pre-consolidation basis and those shown at 31 December 2004 are shown on a post-consolidation basis.

Centrica Sharesave scheme

| | As at 31 December 2004 | Options granted during the year | Options exercised during the year | As at 31 December 2003 |
|--------------|------------------------------|---------------------------------------|---|---------------------------|
| M J Garstang | --- | --- | --- | --- |
| G E Sibbick | --- | --- | --- | --- |
| B D Walker | 12,327 | --- | --- | 12,327 |

Centrica Executive Share Option scheme

| | As at 31 December 2004 | Options granted during the year | Options exercised during the year | As at 31 December 2003 |
|--------------|------------------------------|------------------------------------|--|------------------------------|
| M J Garstang | --- | --- | --- | --- |
| G E Sibbick | --- | --- | --- | --- |
| B D Walker | --- | --- | --- | --- |

Under the terms of the scheme a further grant of options was made on 18 March 2004 at an option price of 223.95 pence per share respectively.

Long-term Incentive scheme

| | As at 31 December 2004 | Allocations made during the year | Allocations transferred during the year | Lapsed during the year | As at 31 December 2003 |
|--------------|---------------------------|--|--|---------------------------|---------------------------|
| M J Garstang | 94,377 | 21,365 | 15,369 | 5,123 | 93,504 |
| G E Sibbick | --- | --- | --- | --- | --- |
| B D Walker | 111,645 | 26,595 | 45,260 | 6,160 | 136,470 |

Directors' report for the year ended 31 December 2004 (continued)

Total allocations as at 31 December 2004 shown above include both allocations of shares that are subject to performance conditions and allocations of shares that have reached the conclusion of the relevant three-year performance period but are subject to a two year retention period. A conditional allocation of shares was made under the terms of the scheme on 1 April 2004 at a price of 225.6 pence per share.

Options were granted under the terms of the ultimate parent company's Sharesave scheme and Executive Share Option scheme, and allocations made under the terms of the Long-term Incentive scheme. Details of these schemes and the Share Incentive Plan, can be found in the 2004 accounts of Centrica plc, copies of which can be obtained from the Secretariat Department of Centrica plc or from www.centrica.com.

The middle market price of Centrica plc ordinary shares on the last day of trading in 2004 (31 December) was 236.25 pence. The range during the year was 256.25 pence (high) and 196.94 pence (low).

As at 31 December 2004, 6,400,000 shares (1 January 2004: 21,200,505) were held by the trustee of the employee share trust under the LTIS rules. The directors are deemed to have a potential interest in those shares, being beneficiaries under the trust.

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any director is or was materially interested.

Directors' liability insurance

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review.

Policy on the payment of creditors

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.

Gas reserves (unaudited)

The company has estimated proven and probable gas reserves in the UK. Estimates are made by management based on the results of reserve studies performed by independent third party consultants. The principle field is the Rough field, with estimated net proven and probable reserves of 188 billion cubic feet at 31 December 2004 and 31 December 2003.

Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office.

Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2003 (continued)

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that 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. 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 confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 and that applicable accounting standards have been followed.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

This report was approved by the Board on 28 June 2005.



Philip Davies
Company Secretary

Date: 28 June 2005

Registered office:
Venture House
42-54 London Road
Staines
Middlesex TW18 4HF

Centrica Offshore UK Ltd

Independent auditors' report to the members of Centrica Offshore UK Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

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.

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 2004 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London
22 June 2005

Centrica Offshore UK Limited

Profit and loss account

For the year ended 31 December 2004

| | Notes | 2004 £000 | 2003 £000 |
|--|-------|-----------------------|-----------------------|
| Turnover | 2 | 692 | 618 |
| Operating costs | 3 | (112) | (149) |
| Operating profit | 3 | <u>580</u> | <u>469</u> |
| Net interest payable and similar charges | 4 | <u>(3,686)</u> | <u>(3,498)</u> |
| Loss on ordinary activities before taxation | | (3,106) | (3,029) |
| Tax on ordinary activities | 7 | 1,474 | 1,400 |
| Loss on ordinary activities after taxation and retained loss for the period | 15 | <u>(1,632)</u> | <u>(1,629)</u> |

All amounts included in the profit and loss account are derived from continuing operations.

There are no recognised gains and losses other than those reported in the profit and loss account. Therefore, no separate statement of recognised gains and losses has been prepared.

There is no difference between the retained loss for the period stated above and the historical cost equivalent.

The notes on pages 8 to 15 form part of the financial statements.

Centrica Offshore UK Limited

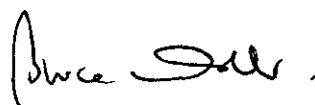
Balance sheet

As at 31 December 2004

| | Notes | 2004 £000 | 2003 £000 |
|---|-------|-----------------|-----------------|
| Fixed assets | | | |
| Tangible assets | 8 | <u>33,654</u> | <u>41,636</u> |
| Current assets | | | |
| Debtors - amounts falling due within one year | 9 | 1,384 | 881 |
| - amounts falling due after more than one year | 10 | <u>20,932</u> | <u>19,458</u> |
| | | 22,316 | 20,339 |
| Creditors: amounts falling due within one year | 11 | <u>(142)</u> | <u>(219)</u> |
| Net current assets | | <u>22,174</u> | <u>20,120</u> |
| Total assets less current liabilities | | <u>55,828</u> | <u>61,756</u> |
| Provisions for liabilities and charges | 12 | <u>(63,974)</u> | <u>(68,270)</u> |
| Net liabilities | | <u>(8,146)</u> | <u>(6,514)</u> |
| Capital and reserves | | | |
| Called up share capital | 14 | 4,500 | 4,500 |
| Profit and loss account | 15 | <u>(12,646)</u> | <u>(11,014)</u> |
| Equity shareholder's deficit | 16 | <u>(8,146)</u> | <u>(6,514)</u> |

The financial statements on pages 6 to 15 were approved by the Board of Directors on June 2005 and were signed on its behalf by:

The notes on pages 8 to 15 form part of these financial statements.



Bruce Walker
Director
28 June 2005

Notes to the financial statements

1 Principal accounting policies

These financial statements are prepared on the going concern basis; as its ultimate parent company, Centrica plc, has confirmed that it will ensure the Company can meet its liabilities and obligations as they fall due; are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards.

Exemptions

The Company has taken advantage of the Exemptions available to wholly owned UK subsidiaries under Financial Reporting Standard 1 (Revised) "Cashflow statements", and accordingly has not prepared a cashflow statement. The Company has also taken advantage of exemptions within Financial Reporting Standard 8 "Related Party Disclosures" from disclosure of transactions with other group companies as it is a wholly owned subsidiary of a company whose financial statements are publicly available and which include the results of the Company.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is calculated so as to write-off the cost of tangible fixed assets, less their estimated residual values, on a unit of gas production basis. At present the Rough field is being used as a Storage facility, therefore, there is no production and no depreciation has been charged.

Impairment losses of fixed assets are calculated as the difference between the carrying values of income generating units and the estimated value in use at the date the impairment is recognised. Value in use represents the net present value of expected future cashflows discounted on a pre-tax basis. Impairment losses of fixed assets are recognised in the profit and loss account in the year in which they occur.

Decommissioning costs

Operators of oil and gas fields on the United Kingdom Continental Shelf are required to remove installations to the extent considered acceptable to the Department of Trade and Industry.

Provision is made for the net present value of the estimated cost of decommissioning the field at the end of its useful life. When this provision gives access to future economic benefits an asset is recognised; otherwise the provision is charged to the profit and loss account. The unwinding of the discount to the net present value is reported in the profit and loss account as a financial item and is added to the net interest charge. This practice is consistent with the Statement of Recommended Practice ('SORP') for Oil and Gas accounting.

Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been 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

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

Taxation (continued)

to pay more tax in the future or a right to pay less tax in the future have occurred at 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.

A 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 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.

Petroleum revenue taxes

Petroleum Revenue Taxes ("PRT") are provided for on a unit of production basis when life of field PRT can be reliably estimated. Changes in estimates are dealt with prospectively over the remaining life of the gas field.

2 Turnover

Turnover is stated as amounts invoiced to customers for the sale of condensate and excludes value added tax. Turnover relates to UK operations only. Turnover for 2004 includes £110k relating to condensate sales delivered to customers in 2003 but recognised in 2004. A reconciliation process during 2004 highlighted an under billed amount in relation to 2003 condensate sales. The revenue was then collected from the appropriate counterparties during the year

Centrica Offshore UK Limited

Notes to the financial statements (continued)

3 Operating profit

- (i) The profit on ordinary activities before taxation is stated after charging audit fees payable to the Company auditors for audit services amounting to £7,000 (period ended 31 December 2003: £7,000). No fees were paid to the auditors of the Company for non-audit services.
- (ii) Other operating costs include charges for the annual production licence fees.

4 Net interest payable and similar charges

| | 31 December 2004 £000 | 31 December 2003 £000 |
|--|-----------------------------|-----------------------------|
| Unwinding of discount on decommissioning provision (note 10) | 3,686 | 3,498 |
| | <u>3,686</u> | <u>3,498</u> |

5 Staff costs

The Company has no employees and no staff costs. All costs relating to employees are borne by another Group Company.

6 Directors' emoluments

None of the directors received nor were due remuneration during the year from the Company (2003: £nil).

The emoluments of three directors who served during the year were paid by the parent company, Centrica Storage Limited. An associated undertaking paid one other director who served during the year. No re-charges are made to the Company. It is not possible to make an accurate apportionment of these emoluments and accordingly no amounts are included in these financial statements for these individuals.

Centrica Offshore UK Limited

Notes to the financial statements (continued)

7 Taxation on Loss on ordinary activities

| (a) Analysis of tax charge in the period | 2004 | 2003 |
|---|----------------|----------------|
| The tax credit comprises: | £000 | £000 |
| Current tax | | |
| UK corporation tax on loss for the period | - | - |
| Deferred tax | | |
| Origination and reversal of timing differences | (1,474) | (306) |
| Adjustment in respect of prior years | - | (1,094) |
| | <u>(1,474)</u> | <u>(1,400)</u> |
| Taxation on loss on ordinary activities | <u>(1,474)</u> | <u>(1,400)</u> |

(b) Factors affecting the tax charge for the period

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

| | 2004 | 2003 |
|---|----------------|----------------|
| | £000 | £000 |
| Loss on ordinary activities before tax | <u>(3,106)</u> | <u>(3,029)</u> |
| Loss on ordinary activities multiplied by the standard rate of tax of 30% (period ended 31 December 2003: 30%) | (931) | (908) |
| Utilisation of timing differences including losses | 1,106 | 1,049 |
| Group Relief | (175) | (141) |
| | <u>-</u> | <u>-</u> |
| Current taxation charge for the period | <u>-</u> | <u>-</u> |

Centrica Offshore UK Limited

Notes to the financial statements (continued)

8 Tangible fixed assets

| | Rights to production of cushion gas £000 | Decommissioning £000 | Total £000 |
|--|---|---------------------------------|-----------------------|
| Cost | | | |
| As at 1 January 2004 | 33,101 | 19,625 | 52,726 |
| Revision of asset | | (7,982) | (7,982) |
| As at 31 December 2004 | 33,101 | 11,643 | 44,744 |
| Accumulated depreciation | | | |
| As at 1 January 2004 | (11,090) | - | (11,090) |
| As at 31 December 2004 | (11,090) | - | (11,090) |
| Net book value as at 31 December 2004 | 22,011 | 11,643 | 33,654 |
| Net book value as at 31 December 2003 | 22,011 | 19,625 | 41,636 |

9 Debtors amounts falling due within one year

| | 31 December 2004 £000 | 31 December 2003 £000 |
|-----------------------------------|--------------------------------------|--------------------------------------|
| Amount owed by group undertakings | 1,384 | 881 |
| | 1,384 | 881 |

Amounts owed by group undertakings include £1.1 million of deposits with group treasury which are unsecured, have no fixed date of repayment, and bear interest at LIBOR.

Centrica Offshore UK Limited

Notes to the financial statements (continued)

10 Debtors amounts falling due after one year

| | 2004 £000 | 2003 £000 |
|-----------------------------|---------------|---------------|
| Deferred taxation (note 13) | 20,932 | 19,458 |
| | <u>20,932</u> | <u>19,458</u> |

All amounts included in the deferred tax asset are due after more than one year. There are no unprovided amounts in 2004 or 2003.

11 Creditors (amounts falling due within one year)

| | 2004 £000 | 2003 £000 |
|---|--------------|--------------|
| Accruals | - | 7 |
| Amount due to group undertakings (non-interest bearing) | 142 | 212 |
| | <u>142</u> | <u>219</u> |

12 Provisions for liabilities and charges

| | Decommissioning Costs £000 |
|--------------------------------|----------------------------------|
| As at 1 January 2004 | 68,270 |
| Change in estimate | (7,982) |
| Unwinding of discount (note 3) | 3,686 |
| As at 31 December 2004 | <u>63,974</u> |

Decommissioning costs

The estimated cost of decommissioning at the end of the life of the storage facilities is based on engineering estimates and reports from independent experts. Provision is made for the net present value of the estimated cost of decommissioning at the balance sheet date. The payment date of total expected future decommissioning costs is uncertain, but is currently anticipated to be 2029.

The change in the decommissioning provision of £7,982,000 reflects a revision during the year in the estimated cost to decommission the asset at the end of its useful economic life. A corresponding equal and opposite adjustment has been made to the related decommissioning asset (note 7).

Centrica Offshore UK Limited

Notes to the financial statements (continued)

13 Deferred taxation

The deferred tax asset is reconciled as follows:

| Deferred taxation | 2004 £000 | 2003 £000 |
|--------------------------|---------------|---------------|
| Opening balance | 19,458 | 18,058 |
| Profit and loss movement | <u>1,474</u> | <u>1,400</u> |
| | <u>20,932</u> | <u>19,458</u> |

All amounts included in the deferred tax asset are due after more than one year. There are no unprovided amounts in 2004 or 2003.

The deferred taxation asset is attributable to the future taxable benefit of the decommissioning provision. This balance arose as part of the acquisition of the Rough production license. No unrecognised deferred tax balances exist at the balance sheet date.

14 Called up share capital

| | As at 31 December 2004 £000 | As at 31 December 2003 £000 |
|---|--------------------------------------|--------------------------------------|
| Authorised 50,000 Ordinary shares of £1 each | 50,000 | 50,000 |
| | <u> </u> | <u> </u> |
| Allotted, called up and fully paid 4,500 ordinary shares of £1 | <u>4,500</u> | <u>4,500</u> |

15 Reserves

| | Profit & Loss Account £000 |
|--------------------------------|----------------------------------|
| Balance as at 1 January 2004 | (11,014) |
| Loss for the year | <u>(1,632)</u> |
| Balance as at 31 December 2004 | <u>(12,646)</u> |

Notes to the financial statements (continued)

16 Reconciliation of movements in shareholder's deficit

| | 2004 £000 | 2003 £000 |
|--|----------------|----------------|
| Loss for the year | (1,632) | (1,629) |
| Net movement in shareholders deficit for the year | (1,632) | (1,629) |
| Shareholders deficit at 1 January 2004 | (6,514) | (4,885) |
| Shareholders deficit as at 31 December 2004 | (8,146) | (6,514) |

17 Contingent liability

The Company's accounting policy is to provide for Petroleum Revenue Taxes relating to production of native gas on a unit of production basis with changes in estimates dealt with prospectively over the remaining life of the gas field.

To date, some native gas has been produced but because the Rough gas field is operated as a storage facility it is not anticipated that any further substantial production will occur until towards the end of the asset's life. There are currently no approved plans to produce further native gas before that date. The Rough gas field is expected to continue as a storage facility until 2027 and as at the time of signing the financial statements the production profile for the native gas and associated oil allowances have not been determined in detail. However, it is the Company's best estimate that no further Petroleum Revenue Tax will be payable and therefore no provision has been made in these financial statements.

18 Ultimate parent company

Centrica plc, a company registered in England and Wales, is the ultimate parent company and ultimate controlling party. Centrica plc has a 100% interest in the equity share capital of GB Gas Holdings Limited, which in turn owns 100% of Centrica Storage Holdings Limited. Centrica Storage Holdings Limited, has a 100% interest in the equity share capital of Centrica Storage Limited. Centrica Storage Limited is the Company's immediate parent undertaking.

Centrica plc is the parent company of the largest and smallest group for which consolidated financial statements are drawn up. Copies of the ultimate parent company's consolidated financial statements can be obtained from Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD.