Centrica Storage Limited
Annual Report for the Year Ended 31 December 2008

Registered number: 3294124

# Directors' report for the year ended 31 December 2008

The directors present their Report and the audited Financial Statements of Centrica Storage Limited (the "Company") for the year ended 31 December 2008.

## Principal activities

The principal activity of the Company is the storage of gas in the United Kingdom which, for the purposes of the Companies Act 1985, constitutes one class of business. The Company operates the Rough storage facility, which is a partially depleted gas field in the United Kingdom.

## Business review

The Company reported a post tax profit of £178 million (2007: £193 million). This reduction reflects the decrease in the average Standard Bundled Unit (SBU) price for the financial year, down 24% to 43.8 pence (2007: 57.4 pence) driven by a narrower spread between summer and winter forward gas prices. A subsequent narrowing of the summer/winter gas price spread reduced the average SBU price for the 2008/09 storage year to 38.82 pence (2007/08: 53.4 pence).

Operationally the Rough field performed strongly in 2008, with injection and production availability of 99%. In the first half of the year we upgraded the two offshore compression trains for the field which enhanced injection rates. Since completing the acquisition in 2003 the continued investment has enabled us to create the financial equivalent of more than 80 million additional SBU sales in 2008. During the year the Easington terminal passed five years without a lost time incident and Centrica Storage's overall accident rate of below one lost time incident per million man hours compares very favourably with industry benchmarks.

In July approval was granted by Ofgem to modify the standard storage contract to include prepaid entry capacity rights. Centrica Storage now offers a range of products that give customers the choice of day ahead or within day withdrawal nominations as well as a choice of trading point and firmness.

## Financial results

The financial position of the Company is presented in the balance sheet on page 8. Shareholder's funds at 31 December 2008 were £1,214 million (2007: £1,036 million).

The retained profit for the year of £178 million has been transferred to reserves (2007: £193 million).

## Dividends

The Directors do not recommend the payment of a dividend (2007:£nil).

## Principal risks and uncertainties

The management of the business and the execution of the Company's strategy are subject to a number of risks.

The key business risks and uncertainties affecting the Company have been highlighted below:

### *Financial risk management*

The Directors have established objectives and policies for managing financial risks, to enable Centrica Storage Limited to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed.

The Centrica Storage Group of companies has a Financial Risk Committee which meets on a regular basis. Please refer to the Centrica plc Annual Report and Accounts 2008 note 4 (pages 74 to 79).

# Directors' report for the year ended 31 December 2008 (continued)

### *Liquidity risk*

Cash forecasts identifying the liquidity requirements of the Company are produced frequently and monitored by the Directors. However, due to the timing of cash payments and cash receipts liquidity is not a major risk for the Company.

### *Counterparty credit risk*

The Directors' policy is to limit counterparty exposures by setting credit limits for each counterparty, where possible by reference to published credit ratings. Exposures are measured in relation to the nature, market value and maturity of each contract or financial instrument. Energy trading activities are undertaken with counterparties for whom specific credit limits are set. All contracted and potential exposures are reported to the Financial Risk Management Committee.

### *Commodity price risk*

The key commodity price risk facing the Company is movement in gas prices. The Company's policy is to minimise the exposure arising from the expected future gas requirement. The Company aims to manage its risk by entering into forward gas purchase and sales contracts at fixed prices. The Financial Risk Management Committee regularly monitors the extent of the Company's commodity price exposure.

At 31 December 2008 the net fair value of energy derivatives was a liability of £11.7m (2007: a liability of £5.3m), consisting of an asset of £45.2m (2007: £22.1m) and a liability of £56.9m (2007: £27.4m). Energy derivatives are not recognised at fair value in the Financial Statements.

### *Operational risk*

The Company is exposed to operational and health and safety risk through its operation of the Rough storage asset. Through the use of an Integrated Management System the company identifies the hazards and assesses the risks associated with its activities and decisions on a continuous basis. Through the assessment of the risk the Company ensures appropriate measures are in place to mitigate or manage those risks so as to prevent / reduce the impact of potential accidents or incidents on people and the business.

## Key performance indicators (KPIs)

The directors consider that the most significant KPI for the business is the price obtained for SBUs. SBU prices obtained were:

| For the period ended 31 December | 2008 | 2007 | Movement % |
|---|---|---|---|
| Average SBU price (calendar year) (pence) | 43.8 | 57.4 | (23.7) |

## Future developments

Looking forward, the Company's priorities remain the active management of Health, Safety, Environmental, Operational and Regulatory Risk, while seeking value-adding opportunities through investment in the Rough asset and the marketing of storage services.

# Directors' report for the year ended 31 December 2008 (continued)

## Directors

The following served as directors during the year and up to the date of signing these Financial Statements:

B D Walker (resigned 31 July 2008)
M J Garstang (resigned 27 June 2008)
I G Dawson
G S Collinson (appointed 21 July 2008)
S H Wills (appointed 31 July 2008)

At no time during the year ended 31 December 2008 did any director have any interests in the shares of the Company (2007: nil) or any other company within the Group, except for interests in and options over the shares and interests of the ultimate parent company, Centrica plc.

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

## Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard 8 "Related Party Disclosures" from disclosure of transactions with other Centrica Group companies. Except for any related party disclosures disclosed in the Centrica plc Annual Report and Accounts 2008, there have been no other disclosable related party transactions during the year (2007: £nil).

## 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 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.

The Company had 48 days' purchases outstanding as at 31 December 2008 (2007: 48 days) based on the average daily amount invoiced by suppliers during the year.

## Employees

The Company had an average of 199 employees at 31 December 2008 (2007: 191), all of whom were based in the UK. For employees of the Company there are well established and effective arrangements through electronic mail and the Company's intranet and in-house publications, as well as videos and briefing meetings at each business location, for communication of the Company's results and significant business issues. When necessary, consultation with employee and trade union representatives also takes place.

The Company takes a positive approach to equality and diversity. The Company achieves this by using appropriate recruitment and selection techniques, ensuring equality of employment opportunity and equal access to development opportunities.

The Company is also committed to providing a work environment free from harassment and discrimination and remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

# Directors' report for the year ended 31 December 2008 (continued)

## Charitable and political donations

The Company made £12k in charitable donations during the year. No political donations were made during 2008 (2007: £nil).

## Directors' liability

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

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual 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 United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The Financial Statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the Financial Statements. 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.

## Disclosure of information to auditors

Each of the directors who held office at the date of approval of this Directors' Report confirm that: so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and he has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

# Directors' report for the year ended 31 December 2008 (continued)

## Auditors

In accordance with Section 487 of the Companies Act 2006, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office.

The Board approved this report on 14 July 2009.

Julia Foo
**Company Secretary**

Date: 14 July 2009

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

# INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRICA STORAGE LIMITED

We have audited the Financial Statements of Centrica Storage Limited (the "Company") for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) 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 International Standards on Auditing (UK and Ireland). 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 whether in our opinion the information given in the Directors' Report is consistent with the Financial Statements.

In addition we report to you if, in our opinion, 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

## Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2008 and of its profit for the year then ended;
- the Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the Financial Statements.

PricewaterhouseCoopers LLP    14 July 2009

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

## Profit and Loss Account
### For the year ended 31 December 2008

| | Notes | 2008 £million | 2007 Restated (i) £million |
|---|---|---|---|
| Turnover | 2 | **244** | 320 |
| Employee costs | 5 | **(15)** | (14) |
| Other operating costs | 3 | **(72)** | (73) |
| **Operating costs** | | **(87)** | (87) |
| **Operating profit** | | **157** | 233 |
| Net interest receivable | 7 | **37** | 29 |
| **Profit on ordinary activities before taxation** | | **194** | 262 |
| Taxation on ordinary activities | 8 | **(16)** | (69) |
| **Profit for the financial year** | 17 | **178** | 193 |

(i) restated to net off gas sales and purchases made as a result of optimisation activity (Note 2)

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.

The notes on pages 9 to 20 form part of these Financial Statements.

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historic cost equivalent.

## Balance Sheet
### As at 31 December 2008

| | Notes | 2008 £million | 2007 £million |
|---|---|---|---|
| **Fixed assets** | | | |
| Tangible assets | 9 | **486** | 487 |
| Investments | 10 | **4** | 4 |
| | | **490** | 491 |
| **Current assets** | | | |
| Stocks | 11 | **23** | 2 |
| Debtors (amounts falling due within one year) | 12 | **1,060** | 809 |
| Cash at bank and in hand | | **1** | 1 |
| | | **1,084** | 812 |
| **Creditors (amounts falling due within one year)** | 13 | **(242)** | (146) |
| **Net current assets** | | **842** | 666 |
| **Total assets less current liabilities** | | **1,332** | 1,157 |
| **Provisions for liabilities and charges – deferred tax** | 14/15 | **(118)** | (121) |
| **Net assets** | | **1,214** | 1,036 |
| **Capital and reserves** | | | |
| Called up share capital | 16 | **463** | 463 |
| Profit and Loss Account | 17 | **751** | 573 |
| **Equity shareholder's funds** | 18 | **1,214** | 1,036 |

The notes on pages 9 to 20 form part of these Financial Statements.

The Financial Statements on pages 7 to 20 were approved and authorised for issue by the Board of Directors on 14 July 2009 and were signed on its behalf by:

**Simon Wills**
**Director**

# Notes to the Financial Statements

## 1 Principal accounting policies

These Financial Statements are prepared on the going concern basis, under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards.

### *Exemptions*

The Company has taken advantage of the exemptions available to wholly owned UK subsidiaries under Financial Reporting Standard 1 (Revised 1996) "Cashflow Statements", and accordingly has not prepared a cashflow statement. The Company has also taken advantage of the 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.

The Company has taken advantage of the exemption available under S228 of the Companies Act 1985, and accordingly has not prepared consolidated Financial Statements for the year ended 31 December 2008.

### *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, on a straight line basis over the expected useful economic lives of the assets concerned. Estimated useful economic lives by category are:

| | |
|---|---|
| Storage facilities | Up to 24 years |
| Buildings | Up to 24 years |
| IT equipment (included in other) | 3 years |
| Major overhauls and inspections | Up to 6 years |
| Other | Up to 24 years |

Freehold land is not depreciated.

Subsequent expenditure (such as major overhauls and inspections) which aims to maintain the tangible fixed asset to its previously assessed standard of performance is capitalised.

Impairment losses or impairment write backs 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 or write back is recognised. Value in use represents the net present value of expected future cashflows discounted on a pre-tax basis. Impairment losses and the write back of fixed assets are recognised in the Profit and Loss Account in the year in which they occur.

# Notes to the Financial Statements (continued)

## 1 Principal accounting policies (continued)

### *Investments*

Fixed asset investments are shown at cost less any provision for impairment.

### *Stocks*

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

### *Turnover recognition*

Turnover is shown exclusive of value added tax and represents amounts receivable for sales of storage and gas. Storage capacity revenues are recognised evenly over the contract period, whilst storage commodity revenues are recognised at the point of gas flowing into or out of the storage facilities. Sales of gas are recognised in the period in which the gas is delivered.

Centrica Storage enters into gas sales and gas purchases as part of its normal trading activity to optimise the performance of the storage facility. Sales and purchases relating to this optimisation activity are presented net within revenue.

### *Current 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 or substantively enacted by the balance sheet date.

### *Deferred taxation*

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.

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 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 re-valued unless by the balance sheet date there is a binding agreement to sell the re-valued 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.

### *Leases*

Rentals under operating leases are charged to the Profit and Loss Account as incurred.

# Notes to the Financial Statements (continued)

## 1 Principal accounting policies (continued)

### *Pensions*

The Company's employees participate in a number of the Group's defined benefit pension schemes as described in note 34 (page 123) of the Centrica plc Annual Report and Accounts 2008. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Group as a whole.

### *Financial instruments: disclosure and presentation*

All financial assets and liabilities are presented gross on the face of the Balance Sheet unless the Company has a legally enforceable right to net off the recognised amounts and it intends to settle on a net basis.

The Company is exempted by FRS 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated financial statements and its financial instruments are incorporated into disclosures in note 4 (page 74 to 79) of the Centrica plc Annual Report and Accounts 2008.

Energy derivatives are accounted for under the accruals basis and not fair valued in the financial statements as the Company has not elected to apply FRS 26 Financial Instruments.

### *Share schemes*

The Group has a number of employee share schemes, detailed in the Remuneration Report on pages 46 to 48 of the Centrica plc Annual Report and Accounts 2008 and in note 33 (pages 117 to 122) of the Centrica plc Annual Report and Accounts 2008, under which it makes equity-settled share-based payments to certain employees. Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight line basis together with a corresponding increase in equity over the vesting period, based on the Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based vesting conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

| | |
|---|---|
| LTIS: awards up to 2005 | A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance |
| LTIS: EPS awards from 2005 | Market value on the date of grant |
| LTIS: TSR awards from 2005 | A Monte Carlo simulation to predict the total shareholder return performance |
| Sharesave | Black-Scholes |
| ESOS | Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise |
| Share Award Scheme | Market value on the date of grant |
| DMSS | Market value on the date of grant |

## Notes to the Financial Statements (continued)

### 2 Turnover

| | **2008** | 2007 Restated (i) |
|---|---|---|
| | **£million** | £million |
| Storage | **242** | 309 |
| Gas sales (i) | **2** | 11 |
| | **244** | 320 |

(i) restated to net off gas sales and purchases made as a result of optimisation activity

Centrica Storage enters into gas sales and gas purchases as part of its normal trading activity to optimise the performance of the storage facility. Sales and purchases relating to this optimisation activity are presented net within revenue. Previously CSL presented such activity gross within revenue and cost of sales with sales reported as revenue and purchases reported as cost of sales. The Directors consider the change of presentation better reflects the nature of this activity. The impact of the change of accounting presentation is to reduce CSL revenue and cost of sales by £286 million in 2008. The impact on comparatives is to reduce revenue and cost of sales by £76 million.

### 3 Operating profit

(i) Operating profit is stated after charging:

| | **2008** | 2007 Restated (*) |
|---|---|---|
| | **£million** | £million |
| Depreciation of tangible fixed assets | **26** | 27 |
| Net cost of gas sales and purchases (*) | **5** | 3 |
| Operating lease rentals – land and buildings | **0.29** | 0.31 |
| Operating lease rentals - other | **0.07** | 0.05 |
| Auditors' remuneration for: | | |
| - statutory audit services | **0.01** | 0.01 |

(*) restated to net off gas sales and purchases made as a result of optimisation activity (Note 2)

Auditors' remuneration £57,386 relates to fees for the audit of the UK GAAP statutory accounts of Centrica Storage Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Centrica Storage Limited. Of the auditors' remuneration £50,036 (2007:£47,718) is borne by Centrica plc. Prior year audit fees have been restated to reflect the inclusion of an element of the Centrica Group fee.

(ii) Other operating costs include direct costs of operating the storage facilities owned during the year.

## Notes to the Financial Statements (continued)

### 4 Share based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders. Centrica operates eight main employee share schemes: the Deferred and Matching Share Scheme (DMSS), the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Restricted Share Scheme (RSS), the Share Incentive Plan (SIP) and the Direct Energy Employee Share Purchase Plan (ESPP) (no Centrica Storage Limited employees are eligible to participate in this scheme, only Centrica employees in North America). These are described in the Remuneration Report on pages 46 to 48 of the Centrica plc Annual Report and Accounts 2008. Employees as at 31 December 2008 were members of 5 of the 8 schemes in the Centrica plc group: LTIS, SAS, RSS, Sharesave and SIP. The nature and extent of the share based payment arrangement that existed in the period is immaterial to the financial statements. There were no other share based payment transactions during the period.

### 5 Employee costs

Employee costs are as follows:

| | **2008 £million** | 2007 £million |
|---|---|---|
| Wages and salaries | **10** | 9 |
| Social security costs | **1** | 1 |
| Other pension and retirement benefit costs (note 20) | **2** | 2 |
| Incentive pay Scheme | **1** | 1 |
| Bonuses | **1** | 1 |
| | **15** | 14 |

Average number of employees during the year:

| | **2008 Number** | 2007 Number |
|---|---|---|
| By Activity: | | |
| Offshore | **73** | 72 |
| Onshore | **55** | 56 |
| Support | **71** | 63 |
| | **199** | 191 |

## Notes to the Financial Statements (continued)

### 6 Directors' emoluments

| | 2008 £million | 2007 £million |
|---|---|---|
| Fees and salaries | **0.26** | 0.25 |
| Pension scheme contributions | **0.22** | 0.04 |
| | **0.48** | 0.29 |

During the year, two directors were paid directly by the Company as the other directors are paid by fellow Group undertakings. It is not possible to make an accurate apportionment of the other directors' emoluments and accordingly the Profit and Loss Account includes no amounts for these individuals.

The emoluments and pension contributions for the highest paid director during the year were respectively £194,264 and £211,818 (2007: £254,902 and £37,902).

Two directors accrued retirement benefits under defined benefit pension schemes during the year (2007: 1).

### 7 Net interest receivable

| | 2008 £million | 2007 £million |
|---|---|---|
| Interest receivable from Group undertakings | **37** | 29 |

## Notes to the Financial Statements (continued)

### 8 Taxation on ordinary activities

| | **2008 £000** | 2007 £000 |
|---|---|---|
| **(a) Analysis of tax charge in the period** | | |
| The tax (credit)/charge comprises of: | | |
| **Current tax** | | |
| UK corporation tax at 28.5% (2007: 30%) based on profit/(loss) for the period | **39** | 82 |
| Adjustments in respect of prior years | **(20)** | - |
| Total current tax | **19** | 82 |
| **Deferred tax (note 14 & 15)** | | |
| Effect of change to the deferred tax rate | **-** | (9) |
| Origination and reversal of timing differences | **(3)** | (3) |
| Adjustments in respect of prior years | **-** | (1) |
| Total deferred tax | **(3)** | (13) |
| Tax on profit on ordinary activities | **16** | 69 |

### (b) Factors affecting the tax charge for the year

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:

| | **2008 £million** | 2007 £million |
|---|---|---|
| Profit on ordinary activities before tax | **194** | 262 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%) | **55** | 79 |
| **Effects of:** | | |
| Capital allowances in excess of depreciation | **3** | 3 |
| Group relief for nil consideration | **(19)** | - |
| Adjustments to tax charge in respect of previous periods | **(20)** | - |
| Current taxation charge for the year | **19** | 82 |

Deferred tax liabilities have not been discounted.

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's profits for the period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

## Notes to the Financial Statements (continued)

### 9 Tangible fixed assets

| | Freehold Land and Buildings £million | Gas Storage Plant and Facilities £million | Other £million | Major Overhauls and Inspections £million | Total £million |
|---|---|---|---|---|---|
| **Cost** | | | | | |
| As at 1 January 2008 | 9 | 1,077 | 14 | 6 | 1,106 |
| Additions | - | 25 | - | - | 25 |
| As at 31 December 2008 | 9 | 1,102 | 14 | 6 | 1,131 |
| **Accumulated Depreciation** | | | | | |
| As at 1 January 2008 | (5) | (601) | (9) | (4) | (619) |
| Charges for the year | - | (24) | (2) | - | (26) |
| As at 31 December 2008 | (5) | (625) | (11) | (4) | (645) |
| **Net book value as at 31 December 2008** | 4 | 477 | 3 | 2 | 486 |
| Net book value as at 31 December 2007 | 4 | 476 | 5 | 2 | 487 |

### 10 Investments

| | **2008 £million** | 2007 £million |
|---|---|---|
| Cost: | | |
| As at 1 January | 4 | 4 |
| Additions | - | - |
| Disposals | - | - |
| **As at 31 December** | 4 | 4 |

Investments relate to the following subsidiary undertakings:

***Centrica Offshore UK Limited***

Centrica Storage Limited owns 100% of the allotted ordinary share capital of Centrica Offshore UK Limited, which comprises of 4.5 million shares of nominal value of £1.

# Notes to the Financial Statements (continued)

## 11 Stocks

| | **2008 £million** | 2007 £million |
|---|---|---|
| Gas stocks | **22** | 1 |
| Engineering stocks | **1** | 1 |
| | **23** | 2 |

## 12 Debtors (amounts falling due within one year)

| | **2008 £million** | 2007 £million |
|---|---|---|
| Amounts owed by Group undertakings | **982** | 769 |
| Other debtors | **2** | 1 |
| Prepayments and accrued income | **76** | 39 |
| | **1,060** | 809 |

Amounts owed by Group undertakings include £982 million (2007: £769 million) of deposits with Group treasury which are unsecured, have no fixed date of repayment, and bear interest at LIBOR.

## 13 Creditors (amounts falling due within one year)

| | **2008 £million** | 2007 £million |
|---|---|---|
| Trade creditors | **7** | 5 |
| Amounts due to Group undertakings | **100** | 54 |
| Taxation and social security | **50** | 48 |
| VAT | **4** | 2 |
| Other creditors | **-** | 1 |
| Accruals and deferred income | **81** | 36 |
| | **242** | 146 |

Amounts due to Group undertakings are repayable on demand.

## Notes to the Financial Statements (continued)

### 14 Provisions for liabilities and charges

| | Deferred Taxation £million | Total £million |
|---|---|---|
| As at 1 January 2008 | 121 | 121 |
| Change to UK Corporation Tax rate | - | - |
| Profit and Loss Account | (3) | (3) |
| **As at 31 December 2008** | **118** | **118** |

The provision for deferred taxation relates solely to amounts due after more than one year.

### 15 Deferred taxation

Deferred corporation tax provision/(asset) at 28% (31 December 2007:28%) is analysed as follows:

| | As at 1 January 2008 £000 | Profit and loss charge/(credit) £000 | As at 31 December 2008 £000 |
|---|---|---|---|
| **Deferred corporation tax** | | | |
| - accelerated capital allowances | 120,724 | (2,847) | 117,877 |
| - other timing differences | - | (74) | (74) |
| | 120,724 | (2,921) | 117,803 |

There are no amounts of deferred tax unprovided (2007:£nil).

### 16 Called up share capital

| | 2008 £million | 2007 £million |
|---|---|---|
| Authorised<br>500,000,000 Ordinary shares of £1 each | 500 | 500 |
| Allotted, called up and fully paid<br>463,256,732 Ordinary shares of £1 each | 463 | 463 |

### 17 Reserves

| | Profit & Loss Account £million |
|---|---|
| Balance as at 1 January 2008 | 573 |
| Transfer to Profit and Loss Reserve for the year | 178 |
| **Balance as at 31 December 2008** | **751** |

## Notes to the Financial Statements (continued)

### 18 Reconciliation of movements in equity shareholder's funds

| | **2008 £million** | 2007 £million |
|---|---|---|
| Profit for the financial year | **178** | 193 |
| Shareholder's funds as at 1 January | **1,036** | 843 |
| **Shareholder's funds as at 31 December** | **1,214** | 1,036 |

### 19 Commitments

Commitments for the following years under operating leases are as follows:

| | **31 Dec 2008 Land & Buildings £million** | **31 Dec 2008 Other £million** | **31 Dec 2008 Total £million** | 31 Dec 2007 Total £million |
|---|---|---|---|---|
| Expiring: | | | | |
| Less than one year | **0.30** | **0.66** | **0.96** | 0.33 |
| Between two years and five years | **0.97** | **0.54** | **1.51** | 1.06 |
| More than five years | **0.78** | **4.50** | **5.28** | 1.22 |
| | **2.05** | **5.70** | **7.75** | 2.61 |

The Company had capital commitments for future and other capital expenditure not provided in the financial statements of £7.4 million at 31 December 2008 (2007: £5.7 million).

### 20 Pensions

*Centrica plc Group Pension Schemes*

The majority of the Company's employees as at 31 December 2008 were members of two of the three main schemes in the Centrica plc Group; the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These schemes are funded defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contribution to the schemes by the Company during the year was £1.8 million (2007: £1.8 million). The amount outstanding at the balance sheet date was £nil (2007: £nil). The latest actuarial valuation of the schemes, updated for the purposes of FRS17, shows a total deficit of £96 million (2007: surplus of £35 million). Net of deferred tax the total deficit is £70 million (2007: surplus of £25 million). These pension schemes are included on a consolidated basis within the Group Financial Statements of Centrica plc as prepared under IFRS.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was as at 31 March 2006.

## Notes to the Financial Statements (continued)

### 21 Events after the balance sheet date

On 9 March 2009 the board of directors resolved to pay an interim dividend for the year of £150million to the Company's sole shareholder CSHL.

### 22 Ultimate parent company

Centrica plc, a company registered in England and Wales is the ultimate holding company and ultimate controlling party. Centrica plc has a 100% interest in the equity share capital of Centrica Holdings Limited. Centrica Holdings Limited in turn owns 100% of the issued share capital of GB Gas Holdings Limited. GB Gas Holdings Limited owns 100% of the issued share capital of Centrica Storage Holdings Limited. Centrica Storage Holdings Limited has a 100% interest in the equity share capital of Centrica Storage Limited and 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 or www.centrica.com.