

Centrica Storage Limited  
(Previously Dynegy Storage Limited)  
Annual Report for the Year Ended 31 December 2002

Registered number: 3294124



# **Centrica Storage Limited**

## **Directors' report**

**For the year ended 31 December 2002**

The Directors present their report and the audited financial statements of Centrica Storage Limited (the "Company") for the year ended 31 December 2002.

### **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. Centrica Storage Limited operates the Rough storage facility, which is a partially depleted gas field in the United Kingdom. Salt cavities at the Hornsea facility were also operated until the sale of this facility on 1 September 2002.

### **Review of business and future developments**

On 28 June 2002, Dynegy Finance Limited became the Company's immediate parent undertaking following a transfer of the shares in the Company from Dynegy Europe Limited. At the same time, Dynegy Finance Limited secured US\$250 million in interim financing which represented an advance on a portion of the proceeds from the sale of the Hornsea Gas Storage Facility. The interim financing arrangement was secured on the entire share capital of the Company. Immediately prior to the sale of the Company to Centrica Storage Holdings Limited, ownership was transferred back to Dynegy Europe Limited and all encumbrances were removed.

On 1 September 2002, the net book value of the assets and liabilities attributable to the Hornsea Gas Storage Facility of £36,793,000, were sold to Dynegy Hornsea Limited for a consideration of 126,942,308, £1 shares in Dynegy Hornsea Limited. The shares in Dynegy Hornsea Limited were then sold to Dynegy Finance Limited at the book value of £126,942,308. The net effect of these transactions was a profit of £90,149,308 to the Company.

During the year, ownership of the Company transferred from Dynegy Europe Limited to Centrica Storage Holdings Limited, a wholly owned subsidiary of Centrica plc, a company incorporated in the United Kingdom. The transaction was completed on the 14 November 2002. At this point the name of the Company was changed from Dynegy Storage Limited to Centrica Storage Limited.

The Directors expect the Company to continue to trade profitably in the foreseeable future.

### **Financial results**

The 2001 comparative figures have been restated as a result of a change in the accounting treatment of assets and liabilities associated with the Rough storage Facility production licence. The impact of this change in accounting treatment is to increase retained earnings by £11,971,000. This is described in the notes to the accounts – see note 2 'Review of Accounting Treatment'.

The results for the year are set out in the profit and loss account on page 7. The retained profit for the year of £105,516,000 has been transferred to reserves (2001 restated: £25,425,000).

The directors do not recommend the payment of a dividend (2001: £nil).

**Directors' report (continued)**

**Directors**

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

	<b>Appointed</b>	<b>Resigned</b>
G T Cardone	28 November 2001	21 March 2002
N Wakefield	28 November 2001	14 November 2002
R D Doty Jr	28 November 2001	29 July 2002
D R Roth	28 November 2001	8 July 2002
M G Scrimshaw	10 July 2002	14 November 2002
M Flinn	21 March 2002	14 November 2002
D N Keane	21 March 2002	18 October 2002
J M Boardman	21 March 2002	26 September 2002
J R Oliver	21 March 2002	14 November 2002
Y Cohen	10 June 2002	14 November 2002
J Ulrich	14 November 2002	-
A Morris	14 November 2002	-

**Directors' interests in shares**

At no time did any Director holding office at 31 December 2002 have any interest in the shares of the Company (31 December 2001: 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, set out below.

**Beneficial interests in ordinary shares (i)**

	<b>As at 31 December 2002</b>	<b>As at date of appointment</b>
J Ulrich	491,495	491,019

(i) 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) as described in the annual report of Centrica plc. J Ulrich has acquired an additional 20,000 shares since year end.

**Executive Share Option Scheme (i)**

	<b>As at 31 December 2002</b>	<b>As at date of appointment</b>
J Ulrich	724,439	724,439
A Morris	66,725	66,725

## **Centrica Storage Limited**

### **Directors' report (continued)**

#### **Directors' interests in shares (continued)**

- (i) Options were granted on 2 April 2002 at an option price of 224.8p under the terms of the Executive Share Option Scheme. \*\*

#### **Long Term Incentive Scheme (i) and (ii)**

	<b>As at 31 December 2002</b>	<b>As at date of appointment</b>
J Ulrich	1,003,903	1,003,903
A Morris	33,362	33,362

- (i) Total allocations as at 31 December 2002 shown above indicate both notional allocations that are subject to performance conditions and awards of shares that have reached the conclusion of the performance period but are subject to a two year retention period.
- (ii) A notional allocation of shares was made under this scheme on 2 April 2002 at a market price of 227.0 pence.

The middle market price of Centrica plc ordinary shares on the last day of trading in 2002 (31 December) was 171.0 pence. The range during the year was 239.0 pence (high) and 150.0 pence (low).

\*\* For details of the above listed schemes please refer to the 2002 Annual Report for Centrica plc, copies of which can be obtained from the Company Secretary Centrica plc (see note 22).

#### **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 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 25 days' purchases outstanding as at 31 December 2002 (2001: 8 days) based on the average daily amount invoiced by suppliers during the year.

#### **Employees**

The Company had 136 employees at 31 December 2002 (2001: 221), 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.

**Directors' report (continued)**

**Employees (continued)**

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.

**Auditors**

During the year 2002, Arthur Andersen resigned as auditors of the Company. PricewaterhouseCoopers was appointed in September 2002.

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP), PricewaterhouseCoopers resigned on 31 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board

  
**FOR AND ON BEHALF OF CENTRICA SECRETARIES LIMITED**

Date: 31<sup>st</sup> October 2003

**Millstream  
Maidenhead Road  
Windsor  
BERKSHIRE SL4 5GD**

**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 2002 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.

**Independent auditors' report to the members of Centrica Storage 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 principal accounting policies note.

**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 opinion has been prepared for and only for the company's members 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 in to 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 of 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

31 October 2003

**PricewaterhouseCoopers LLP**

**Chartered Accountants and Registered Auditors  
London**

# Centrica Storage Limited

## Profit and Loss Account

For the year ended 31 December 2002

	Notes	2002 £000		Restated (note 2) 2001 £000	
		Continuing Operations	Discontinued Operations	Total	
<b>Turnover</b>					
- Continuing	3	93,060	-	93,060	69,802
- Discontinued	3	-	10,840	10,840	14,801
		<hr/>	<hr/>	<hr/>	<hr/>
		93,060	10,840	103,900	84,603
Employee costs	5	(11,333)	(625)	(11,958)	(12,725)
Other operating costs before exceptional items	4(ii)	(60,230)	(3,546)	(63,776)	(50,056)
Exceptional items	7	(7,912)	-	(7,912)	-
		<hr/>	<hr/>	<hr/>	<hr/>
Operating costs after exceptional items		(79,475)	(4,171)	(83,646)	(62,781)
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Operating profit</b>					
- Continuing	4(i)	13,585	-	13,585	15,191
- Discontinued	4(i)	-	6,669	6,669	6,631
		<hr/>	<hr/>	<hr/>	<hr/>
		13,585	6,669	20,254	21,822
Profit on sale of business	7	-	90,149	90,149	8,857
Loss on disposal of fixed assets	7	(92)	-	(92)	-
		<hr/>	<hr/>	<hr/>	<hr/>
<b>Profit on ordinary activities before interest and taxation</b>		13,493	96,818	110,311	30,679
Net interest receivable/(payable)	8			756	(1,827)
				<hr/>	<hr/>
<b>Profit on ordinary activities before taxation</b>				111,067	28,852
Taxation on ordinary activities	9			(5,551)	(3,427)
				<hr/>	<hr/>
<b>Profit on ordinary activities after taxation and retained profit for the year</b>	19			105,516	25,425

There is no difference between the historical cost profits and losses and the results presented.



**Statement of Total Recognised Gains and Losses**  
**For the year ended 31 December 2002**

	<b>2002</b> <b>£000</b>	Restated (note 2) 2001 £000
Profit for the financial year	<b>105,516</b>	25,425
Total recognised gains and losses relating to the year	<b>105,516</b>	25,425
Prior period adjustment – review of accounting treatment (note 2)	<b>11,971</b>	
Total gains and losses recognised since last annual report	<b>117,487</b>	

The notes on pages 7 to 25 form an integral part of the financial statements

# Centrica Storage Limited

## Balance Sheet As at 31 December 2002

	Notes	2002 £000	Restated (note 2) 2001 £000
<b>Fixed assets</b>			
Tangible assets	10	369,856	435,379
Investments	11	4,500	4,500
		<u>374,356</u>	<u>439,879</u>
<b>Current assets</b>			
Stocks	12	3,988	8,008
Debtors	13	203,418	26,515
Cash at bank and in hand		576	9,700
		<u>207,982</u>	<u>44,223</u>
<b>Creditors (amounts falling due within one year)</b>	14	<u>(31,697)</u>	<u>(20,049)</u>
<b>Net current assets</b>		<u>176,285</u>	<u>24,174</u>
<b>Total assets less current liabilities</b>		<u>550,641</u>	<u>464,053</u>
<b>Provisions for liabilities and charges</b>	15	<u>(89,651)</u>	<u>(108,579)</u>
<b>Net assets</b>		<u><u>460,990</u></u>	<u><u>355,474</u></u>
<b>Capital and reserves</b>			
Called up share capital	17	463,257	463,257
Profit and loss account	18	(2,267)	(107,783)
<b>Equity shareholder's funds</b>	19	<u><u>460,990</u></u>	<u><u>355,474</u></u>

The financial statements on pages 7 to 25 were approved by the Board of Directors on the 31<sup>st</sup> of October 2003 and were signed on its behalf by:



A Morris  
Director

**Notes to the accounts**

**1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, and the Companies Act 1985. Financial Reporting Standard 19, 'Deferred Taxation', was adopted in 2002.

***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 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 2002.

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

Storage facilities – 28 years  
Buildings – 28 years  
Decommissioning assets – 8 years  
Other – 28 years

Freehold land is not depreciated.

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.

***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, less provision for obsolescence and deterioration.

Notes to the accounts (continued)

1 Principal accounting policies (continued)

*Revenue recognition*

Storage capacity revenues are recognised evenly over the contract period, whilst 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 has been flowed.

*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.

*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 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. The accounting standard Financial Reporting Standard 19 'Deferred Taxation', has been adopted this year. Although the implementation of Financial Reporting Standard 19 is a change in accounting policy, it has had no impact on the company in 2002 or on the prior year. Therefore no prior year adjustment is required in the accounts.

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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

**Notes to the accounts (continued)**

**1 Principal accounting policies (continued)**

***Leases***

Rentals under operating leases are charged to the profit and loss account as incurred.

***Pensions***

The Company makes contributions on a monthly basis to both defined benefits and defined contribution pension schemes. As the Company will not fund any deficits in or participate in any surplus of the defined benefits schemes, under SSAP 24 "Accounting for Pension Costs" the Company accounts for its contributions to the schemes using defined contribution principles (refer to note 21).

**2 Review of accounting treatment**

The Company has restated the prior period profit and loss account and balance sheet following a review of the accounting treatment for the transfer of the Rough production licence in 2001. This has resulted in a £11,971,000 adjustment to the 2001 profit and loss account and retained earnings as at 31 December 2001. Under an agreement signed in 2001, the production licence for the Rough Storage facility was sold to BGSP Limited (which was subsequently renamed to Dynegy Offshore UK Limited and then Centrica Offshore UK Limited), a wholly owned subsidiary undertaking of the Company. Following the acquisition of the Company by Centrica Storage Holdings Limited, the directors have reviewed the accounting treatment in the 2001 annual report and decided that, in addition to the licence, it is appropriate to transfer both the assets and liabilities associated with the production licence to Centrica Offshore UK Limited.

Notes to the accounts (continued)

2 Review of accounting treatment (continued)

As a result, comparative figures for the Company for the year ended 31 December 2001 have been restated as follows:

	Retained earnings / Closing shareholder's funds £000	Fixed assets £000	Net current assets £000	Provisions for liabilities & charges £000
As previously reported	343,503	455,411	27,179	(139,087)
Review of accounting treatment	11,971	(15,532)	(3,005)	30,508
As restated	<u>355,474</u>	<u>439,879</u>	<u>24,174</u>	<u>(108,579)</u>

3 Turnover

Turnover, which excludes value added tax and represents amounts receivable for sales of storage and gas is as follows:

	2002 £000	2001 £000
Storage	87,929	78,655
Gas sales	13,803	4,093
Other	2,168	1,855
	<u>103,900</u>	<u>84,603</u>

4 Operating profit

(i) Profit on ordinary activities before taxation is stated after charging:

	2002 £000	2001 £000
Depreciation of tangible fixed assets	16,356	15,715
Operating lease rentals (other)	128	336
Auditors' remuneration for:		
- statutory audit services	74	65
- non-audit services	66	29
	<u>16,554</u>	<u>16,085</u>

(ii) Other operating costs include direct costs of operating the storage facilities owned during the year and depreciation of tangible fixed assets.

Notes to the accounts (continued)

**5 Employee costs**

Employee costs are as follows:

	2002 £000	2001 £000
Wages and salaries	7,948	9,696
Social Security costs	1,262	887
Pension costs	1,916	1,201
Incentive Pay Scheme	832	941
	<u>11,958</u>	<u>12,725</u>

Average number of employees during the year:

	2002 Number	2001 Number
Offshore	99	99
Onshore	64	105
Support	<u>58</u>	<u>39</u>
	<u>221</u>	<u>243</u>

Average employee numbers are based on an average monthly headcount.

**6 Directors' emoluments**

	2002 £000	2001 £000
Fees and salaries	150	369
Taxable benefits	-	58
Pension scheme contributions	10	-
Compensation for loss of office	389	252
	<u>549</u>	<u>679</u>

The Company paid the directors directly from 1 August 2002. Prior to this date, a general cost allocation was received from other Dynegy companies. The amounts relating to directors' emoluments were not separately identified and are therefore not shown in the amounts above. Following the acquisition by Centrica Storage Holdings Limited, the Company has paid no remuneration to the current directors.

Taxable benefits include such items as company car and fuel.

The emoluments and pension contributions for the highest paid director during the year were £64,775 and £4,534 respectively (2001: £167,712 and £nil respectively).

Three directors accrued retirement benefits under defined benefit pension schemes during the year (2001: 7).

## Centrica Storage Limited

### Notes to the accounts (continued)

#### 6 Directors' emoluments (continued)

During the year one director exercised share options in Centrica plc, the ultimate parent company at the end of the year. The highest paid director exercised no such share options.

#### 7 Exceptional items

	2002 £000	Restated (note 2) 2001 £000
Severance and reorganisation costs	(7,912)	-
Loss on disposal of fixed assets	(92)	-
Profit on sale of business	90,149	8,857

None of the above exceptional items gave rise to a tax charge under United Kingdom corporation tax (2001: £nil).

##### *Severance and reorganisation costs*

During the year, the Company undertook a significant restructuring programme at a cost of £7,912,000. Included in these costs was a voluntary redundancy programme at its operational centres at Easington and Rough of approximately £6,914,000. Other significant costs included the payout of the various inherited BG plc incentive scheme programmes.

##### *Loss on disposal of fixed assets*

A loss on disposal of fixed assets of £92,000 following the closure of an office was made in 2002.



# Centrica Storage Limited

## Notes to the accounts (continued)

### 7 Exceptional items (continued)

#### *Profit on sale of business*

In 2001, the Rough production licence including any rights and obligations under the production licence was sold to Centrica Offshore UK Limited, a 100% wholly owned subsidiary undertaking of the Company, resulting in a profit on disposal of £8,857,000 (see note 2).

On 1 September 2002, the Company transferred the Hornsea Gas Storage Facility and Aldbrough Gas Storage site to Dynegy Hornsea Limited, a wholly owned subsidiary of the Company during the year. The net book value of the assets and liabilities disposed of amounted to £36,793,000. Total consideration was 126,942,308 £1 shares in Dynegy Hornsea Limited. The resulting profit on sale of the business was £90,149,308. No tax is payable on this transaction by the Company.

The net assets of the business at 1 September 2002 were as follows:	£000
Tangible fixed assets	55,484
Stocks	502
Provisions	(19,193)
Net assets	36,793
Profit on disposal of business	90,149
	126,942
Satisfied by:	
126,942,308, £1 shares in Dynegy Hornsea Limited	126,942

The investment in Dynegy Hornsea Limited was then sold to Dynegy Finance Limited at cost in September 2002, resulting in a nil profit on sale of the investment.

8 Net interest payable/(receivable)	2002 £000	Restated (note 2) 2001 £000
Interest payable on customer deposits	51	60
Unwinding of discount on decommissioning provision (note 15)	240	1,851
Interest receivable	(1,047)	(84)
	(756)	1,827

# Centrica Storage Limited

## Notes to the accounts (continued)

### 9 Taxation on ordinary activities

	2002 £000	Restated (note 2) 2001 £000
The tax charge comprises:		
<b>Current tax</b>		
UK corporation tax on profit for the year	5,088	2,885
Corporation tax overprovided in respect of previous years	(2,064)	-
	<u>3,024</u>	<u>2,885</u>
<b>Deferred tax (note 15)</b>		
Excess of capital allowances over depreciation	1,115	542
Short-term timing differences	72	-
Prior period adjustment	1,340	-
	<u>5,551</u>	<u>3,427</u>
Tax on profit on ordinary activities		

The tax assessed for the year is lower than the standard rate of corporation tax in the UK (30%). The differences are explained below:

	2002 £000	Restated (note 2) 2001 £000
Profit on ordinary activities before tax	111,067	28,852
Profit on ordinary activities multiplied by the standard rate of tax of 30% (2001 – 30%)	33,320	8,655
<b>Effects of:</b>		
Revenues not taxable	(27,045)	(2,657)
Excess of capital allowances over depreciation	(1,115)	(3,113)
Short term timing differences	(72)	-
Corporation tax overprovided in respect of previous years	(2,064)	-
Current taxation charge for the year	<u>3,024</u>	<u>2,885</u>

Deferred tax liabilities have not been discounted.

# Centrica Storage Limited

## Notes to the accounts (continued)

### 10 Tangible fixed assets

	Freehold Land and Buildings £000	Gas Storage Plant and Facilities £000	Other £000	Decommissioning £000	Total £000
<b>Cost</b>					
As at 1 January 2002 – restated (note 2)	12,466	1,095,992	4,408	4,467	1,117,333
Additions	-	2,070	-	999	3,069
Transferred from stocks	-	3,339	-	-	3,339
Disposals	(3,562)	(69,837)	(1,857)	(5,466)	(80,722)
As at 31 December 2002	<b>8,904</b>	<b>1,031,564</b>	<b>2,551</b>	<b>-</b>	<b>1,043,019</b>
<b>Accumulated Depreciation</b>					
As at 1 January 2002	(3,532)	(675,158)	(2,359)	(905)	(681,954)
Charges for the period	(445)	(14,475)	(846)	(590)	(16,356)
Disposals	42	22,162	1,448	1,495	25,147
As at 31 December 2002	<b>(3,935)</b>	<b>(667,471)</b>	<b>(1,757)</b>	<b>-</b>	<b>(673,163)</b>
<b>Net book value as at 31 December 2002</b>	<b>4,969</b>	<b>364,093</b>	<b>794</b>	<b>-</b>	<b>369,856</b>
Net book value as at 31 December 2001 restated	8,934	420,834	2,049	3,562	435,379

Notes to the accounts (continued)

11 Investments

	£000
Cost:	
As at 1 January 2002	4,500
Additions	126,942
Disposals	(126,942)
	<hr/>
As at 31 December 2002	4,500
	<hr/>
As at 31 December 2001	4,500
	<hr/>

Investments relate to the following subsidiary undertakings during the year:

*Centrica Offshore UK Limited*

The company was renamed Centrica Offshore UK Limited in November 2002 (previously Dynegy Offshore Limited). Centrica Storage Limited owns 100% of the share capital of Centrica Offshore Limited, which comprises of 4.5 million shares of nominal value of £1.

*Dynegy Hornsea Limited*

On disposal of the Hornsea Gas Storage Facility, the Company received as consideration 126,942,308 £1 shares in Dynegy Hornsea Limited. Dynegy Hornsea Limited was then sold to Dynegy Finance Limited at book value.

12 Stocks

	2002 £000	2001 £000
Gas stocks	3,988	4,465
Insurance spares	-	3,543
	<hr/>	<hr/>
	3,988	8,008
	<hr/>	<hr/>

Following the sale of the Company to Centrica Storage Holdings Limited, all insurance spares have been reclassified as tangible fixed assets as they are held for continuing use in the business.

Notes to the accounts (continued)

13 Debtors (amounts falling due within one year)

	2002 £000	Restated (note 2) 2001 £000
Trade debtors	168	2,725
Amounts owed by group undertakings	195,480	14,685
Other debtors	136	372
Prepayment and accrued income	7,634	8,733
	<u>203,418</u>	<u>26,515</u>

14 Creditors (amounts falling due within one year)

	2002 £000	Restated (note 2) 2001 £000
Trade creditors	1,722	1,782
Amounts due to group undertakings	13,993	-
Corporation tax	4,924	2,885
Other taxation and social security	187	522
VAT	2,212	1,505
Other creditors	5,134	6,136
Accruals and deferred income	3,525	7,219
	<u>31,697</u>	<u>20,049</u>

15 Provisions for liabilities and charges

	Deferred Taxation £000	Decommissioning Costs £000	Other £000	Total £000
As at 1 January 2002	100,278	4,801	3,500	108,579
- restated (note 2)				
Profit and loss account	2,527	240	(1,780)	987
Change in accounting estimate	-	998	-	998
Sale of business	(13,154)	(6,039)	-	(19,193)
Provision utilised	-	-	(1,720)	(1,720)
As at 31 December 2002	<u>89,651</u>	<u>-</u>	<u>-</u>	<u>89,651</u>

Notes to the accounts (continued)

15 Provisions for liabilities and charges (Continued)

*Deferred taxation*

The deferred taxation provision comprises:

	2002 £000	2001 £000
Accelerated capital allowances	<u>89,651</u>	<u>100,278</u>

This represents the provision for taxation attributable to timing differences between profits and losses compiled for tax purposes and results as stated in the Financial Statements. There are no unprovided amounts in 2002 and 2001.

*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 provision for decommissioning was disposed of with the sale of the Hornsea Gas Storage Facility.

Prior to the disposal of the Hornsea Facility, there was a change in accounting estimate in relation to the decommissioning provision for the facility which resulted in an adjustment to the provision of £998,000.

*Other provisions*

The provision as at 31 December 2001 represented amounts payable in future periods for redundancy, gas replacement and royalties.

Notes to the accounts (continued)

16 Related party disclosures

The Company has taken advantage of the exemption contained in Financial Reporting Standard 8 – “Related Party Disclosures” – not to disclose related party transactions with its parent undertakings at balance sheet date or fellow subsidiary undertakings on the grounds that it is a 100% owned subsidiary and the consolidated financial statements in which the Company is included are publicly available. Details of the Company’s immediate and ultimate parent undertakings are disclosed in note 22.

During the period until 14 November 2002, transactions were undertaken between the Company and various subsidiary undertakings within the Dynegy group:

- a) Gas sales and purchases to and from Dynegy UK Limited amounted to £10,099,000 and £17,197,000 respectively. Total storage fees charged by the Company to Dynegy UK Limited were £18,831,000. Shipping fees and balancing charges of £116,512 were also paid to Dynegy UK Limited.
- b) As disclosed in note 7, the company disposed of the Hornsea Gas Storage Facility to Dynegy Hornsea Limited for the consideration of 126,942,308 £1 shares in Dynegy Hornsea Limited. Dynegy Hornsea Limited was then sold to Dynegy Finance Limited at book value.
- c) In April 2002, the Company entered into a agreement to loan gas to Dynegy UK Limited. A one off fee for £1,550,000 was paid to the Company for this service. The gas loan was fully repaid by Dynegy UK in October 2002.
- d) During the year, the Company was charged an allocation of general and administration costs from Dynegy UK Limited and Dynegy Marketing and Trading Inc. totalling £1,295,286. Immediately prior to the acquisition of the Company by Centrica plc, the Company settled inter company amounts owed to Dynegy UK Limited and Dynegy Marketing and Trade Inc. for £827,000 and £868,000 respectively.
- e) On 28 June 2002, Dynegy Finance Limited (‘DFL’) became the Company’s immediate parent undertaking. At the same time, DFL secured US\$250 million in interim financing which represented an advance on a portion of the proceeds from the expected sale of certain assets owned by the Company. The interim financing arrangement was secured on the entire share capital of the Company and other DFL group companies.

Under the terms of the finance arrangement, DFL and its subsidiaries undertook to maintain certain profitability and liquidity ratios. Limitations on cash being used by parent undertakings and for non-core business activities also applied.

On 14 November 2002, the Company was sold by Dynegy Europe Limited to Centrica Storage Holdings Limited, a wholly owned subsidiary of Centrica plc. Upon the sale of the Company to Centrica Storage Holdings Limited, all encumbrances over the shares of the Company and limitations on the use of cash were removed and amounts due to the parent company were settled.

# Centrica Storage Limited

## Notes to the accounts (continued)

### 17 Called up share capital

	Number of Shares '000	2002 £000	2001 £000
Ordinary shares of £1 each Authorised	500,000	500,000	500,000
Allotted, called up and fully paid	463,257	463,257	463,257

### 18 Reserves

	Profit & Loss Account £000
Balance as at 1 Jan 2002 - as previously reported	(119,754)
Prior period adjustment (note 2)	11,971
Balance as at 1 January – as restated	(107,783)
Transfer from profit and loss account for the year	105,516
<b>Balance as at 31 Dec 2002</b>	<b>(2,267)</b>

### 19 Reconciliation of movements in shareholder's funds

	£000
Profit for the financial year	105,516
Net movement in shareholder's funds for the financial year	105,516
Shareholder's funds as at 1 January 2002 restated (note 2)	355,474
<b>Shareholder's funds as at 31 December 2002</b>	<b>460,990</b>



Notes to the accounts (continued)

20 Commitments

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

	Land & Buildings £000	Other £000	31 Dec 2002 Total £000
Expiring:			
Less than one year	-	59	59
Between two and five years	-	81	81
More than five years	25	-	25
	<u>25</u>	<u>140</u>	<u>165</u>
	Land & Buildings £000	Other £000	31 Dec 2001 Total £000
Expiring:			
Less than one year	72	21	93
Between two and five years	-	111	111
More than five years	25	-	25
	<u>97</u>	<u>132</u>	<u>229</u>

21 Pensions

During the year, the Company contributed to three pension schemes as follows:

*BG Group Pension Scheme*

The Company continued to contribute to the BG Group Pension Scheme, which is a defined benefit scheme. On 27 November 2002, all employees participating in this scheme were transferred to the Dynegy Pension Scheme under which equivalent benefits are provided for members. The total charged to the profit and loss account for the BG Pension Scheme was £1,764,535. No amounts were owed at 31 December 2002.

*Dynegy Pension Scheme*

From 27 November 2002, the Dynegy group established a new defined benefits scheme. The Scheme is subject to independent valuation at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme.

**Notes to the accounts (continued)**

**21 Pensions (continued)**

The Company continued to participate in the Dynegy Pension Scheme for three months after the completion of the sale of the company to Centrica Storage Holdings Limited on 14 November 2002, and employees of Centrica Storage Limited continued their membership of the Dynegy Pension Scheme without interruption up until the transfer date. Members were then given the option of joining the Centrica Staff Pension Scheme of which Centrica Storage Limited is a participating employer and were also given the option of transferring their previous pension entitlements to the Centrica Staff Pension Scheme.

The total charged to the profit and loss account for contributions to the Dynegy Pension Scheme was £136,128 of which £136,128 was owed at 31 December 2002.

The Company will not fund any deficits in, or participate in any surplus of the Dynegy Pension Scheme or the BG Group Pension Scheme. Accordingly, under SSAP 24 "Accounting for Pension Costs", it accounts for its contributions under the Scheme using defined contribution principles. The Company is therefore not required to provide the transitional defined benefit scheme disclosures required under Financial Reporting Standard 17 "Retirement Benefits".

The Centrica Staff Pension Scheme is of the defined benefit type and its assets are held in a separate trustee administered fund. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuaries. Particulars of the valuation are contained in the financial statements of Centrica Plc.

*Standard Life Scheme*

The Standard Life Scheme is a defined contribution scheme to which the company contributes for a small number of the Centrica Storage Limited employees. The assets of the scheme are held separately from those of the company in an independently administered fund. The unpaid contributions at year-end are included in creditors.

The total charged to the profit and loss account during the year amounted to £15,337 of which £11,640 was owed at 31 December 2002.

**22 Ultimate parent company**

Centrica plc, a company registered in the United Kingdom is the ultimate holding company and ultimate controlling party. Centrica plc has 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 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.

Prior to the acquisition of the Company by Centrica Storage Holdings Limited on 14 November 2002, the Company was a 100% subsidiary of Dynegy Inc, a company incorporated in the USA.