Centrica Offshore UK Limited
Annual report for the year ended 31 December 2003

Registered Number: 0424895 2

Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2003

The directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2003. Comparatives are for the period 10 July 2001 to 31 December 2002.

Principal activities

The principal activity of the Company is the production of gas in the United Kingdom. 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.

On 18 December 2003 the Secretary of State gave final clearance to Centrica's acquisition of the Rough storage field and associated assets, with the behavioural undertakings offered addressing all competition concerns.

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 £1,816,000 (period ended 31 December 2002: £9,385,000) has been transferred from reserves. The directors do not recommend the payment of a dividend in respect of the year (period ended 31 December 2002: £nil).

Directors

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

	Appointed	Resigned
A Bennett	14 November 2002	3 November 2003
G Stoker	14 November 2002	27 September 2004
G Sibbick	27 September 2004	--
B Walker	3 November 2003	--
M Garstang	3 November 2003	--

Directors' interests in shares

At no time during the year did any Director holding office at 31 December 2003 have any interests in the shares of the Company (31 December 2002: 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.

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

Beneficial interest in ordinary shares

	As at 31 December 2003	As at date of appointment
M Garstang	246	246
G Stoker	1,188	1,022
B Walker	2,834	2,667

The above figures include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the terms of the Centrica Share Incentive Plan.

Centrica Sharesave Scheme

	As at 31 December 2003	Options granted since appointment	Options exercised since appointment	As at date of appointment
M Garstang	---	---	---	---
G Stoker	8,823	---	---	8,823
B Walker	12,327	---	---	12,327

Options were granted under the terms of the Centrica Sharesave Scheme in June 2002 and June 2003 at an option price of 177.6 and 107.1 pence per share respectively.

Long-term Incentive Scheme

	As at 31 December 2003	Allocations made since appointment	Allocations transferred since appointment	As at date of appointment
M Garstang	93,504	---	---	93,504
G Stoker	33,828	---	---	33,828
B Walker	136,470	---	---	136,470

Total allocations as at 31 December 2003 shown above include both allocations that are subject to performance conditions and awards 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 this scheme on 1 April 2003 at a base price of 179.4 pence per share.

Options were granted under the terms of the ultimate parent company's Sharesave scheme and allocations made under the terms of the long-term Incentive scheme. Details of these schemes, the Share Incentive Plan and Profit Sharing scheme, can be found in the 2003 accounts of Centrica plc, copies of which can be obtained from the Company Secretary of Centrica plc or from www.centrica.com.

The middle market price of Centrica plc ordinary shares on the last day of trading in 2003 (31 December) was 211 pence. The range during the year was 212.75 pence (high) and 131.5 pence (low).

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

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. The principle field is the Rough field, with estimated net proven and probable reserves of 188 billion cubic feet.

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.

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 2003 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 October 2004.

Philip Davies
Company Secretary

Date: 28 October 2004

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

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 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 report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises 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 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

28 October 2004

Profit and loss account
For the year ended 31 December 2003

	Notes	2003 £000	2002 £000
Turnover	1	**618**	463
Operating costs before exceptional items	2	**(149)**	(165)
Exceptional items	3	**-**	(11,090)
Total operating costs after exceptional items		**(149)**	(11,255)
Operating profit/(loss)	2	**469**	(10,792)
Net interest payable and similar charges	4	**(3,498)**	(4,291)
Loss on ordinary activities before taxation		**(3,029)**	(15,083)
Tax on ordinary activities	7	**1,400**	5,698
Loss on ordinary activities after taxation and retained loss for the period		**(1,629)**	(9,385)

There are no recognised gains and losses other than those reported in the profit and loss account which relate to continuing operations.

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 2003

	Notes	2003 £000	2002 £000
Fixed assets			
Tangible assets	8	**41,636**	38,903
Current assets			
Debtors - amounts falling due within one year	9	**881**	304
- deferred tax asset	9	**19,458**	18,058
		20,339	18,362
Creditors: amounts falling due within one year	10	**(219)**	(111)
Net current assets		**20,120**	18,251
Total assets less current liabilities		**61,756**	57,154
Provisions for liabilities and charges	11	**(68,270)**	(62,039)
Net liabilities		**(6,514)**	(4,885)
Capital and reserves			
Called up share capital	12	**4,500**	4,500
Profit and loss account	13	**(11,014)**	(9,385)
Equity shareholder's deficit	14	**(6,514)**	(4,885)

The financial statements on pages 6 to 15 were approved by the Board of Directors on 28 October 2004 and were signed on its behalf by:

Bruce Walker
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 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.

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. 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

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.

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.

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.

Notes to the financial statements (continued)

2 Operating profit/(loss)

(i) The profit/(loss) 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 2002: £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.

3 Exceptional items

During 2002, a review of the carrying value of the rights to the cushion gas at the Rough Facility was undertaken which resulted in an impairment loss of £11,090,000. A discount rate of 8% was used to calculate the net present value of estimated future cash flows.

4 Net interest payable and similar charges

	31 December 2003 £000	Period ended 31 December 2002 £000
Unwinding of discount on decommissioning provision (note 11)	**3,498**	4,291
	3,498	4,291

5 Staff costs

The Company has no employees and no staff costs.

6 Directors' emoluments

None of the directors received nor were due remuneration during the year from the Company (period ended 31 December 2002: £nil).

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

Notes to the financial statements (continued)

7 Taxation on Loss on ordinary activities

(a) Analysis of tax charge in the period	31 December 2003	Period ended 31 December 2002
The tax credit comprises:	£000	£000
Current tax		
UK corporation tax on loss for the period	-	104
Deferred tax		
Origination and reversal of timing differences	**(306)**	(1,717)
Adjustment in respect of prior years	**(1,094)**	-
Exceptional charge	-	(4,085)
Taxation on loss on ordinary activities	**(1,400)**	(5,698)

The exceptional deferred tax charge in 2002 arose from the introduction of the supplementary tax charge of 10% applicable to profits on 'ring fenced' offshore gas production resulting in an increase in the corporation tax rate.

(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:

	31 December 2003 £000	Period ended 31 December 2002 £000
Loss on ordinary activities before tax	**(3,029)**	(15,083)
Loss on ordinary activities multiplied by the standard rate of tax of 30% (period ended 31 December 2002: 30%)	**(908)**	(4,525)
Expenses not deductible for taxation purposes	-	3,327
Utilisation of timing differences including losses	**1,049**	1,287
Group Relief	**(141)**	-
Supplementary charge applicable to upstream profits	-	15
Current taxation charge for the period	-	104

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 2003	33,101	16,892	49,993
Additions	-	2,733	2,733
As at 31 December 2003	33,101	19,625	52,726
Accumulated depreciation			
As at 1 January 2003	(11,090)	-	(11,090)
As at 31 December 2003	(11,090)	-	(11,090)
Net book value as at 31 December 2003	**22,011**	**19,625**	**41,636**
Net book value as at 31 December 2003	22,011	16,892	38,903

9 Debtors

	31 December 2003 £000	Period ended 31 December 2002 £000
Amount owed by group undertakings	**881**	304
Deferred taxation asset	**19,458**	18,058
	20,339	18,362

Amounts owed by group undertakings are unsecured, have no fixed date of repayment, and bear no interest.

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.

Notes to the financial statements (continued)

9 Debtors (continued)

The deferred tax asset is reconciled as follows:

Deferred taxation	**2003 £000**	**2002 £000**
Opening balance	**18,058**	-
Balance recognised on acquisition	-	12,256
Exceptional uplift for 10% Supplementary charge	-	4,085
Profit and loss movement	**1,400**	1,717
	19,458	18, 058

All amounts included in the deferred tax asset are due after more than one year. There are no unprovided amounts in 2003 or 2002.

10 Creditors (amounts falling due within one year)

	2003 £000	**2002 £000**
Corporation tax	-	104
Accruals	**7**	7
Amount due to group undertakings (non-interest bearing)	**212**	-
	219	111

11 Provisions for liabilities and charges

	Decommissioning Costs £000
As at 1 January 2003	62,039
Change in estimate	2,733
Unwinding of discount (note 4)	3,498
As at 31 December 2003	**68,270**

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 £2,733,000 reflects a revision during the year in the discount used to calculate the net present value. A corresponding equal and opposite adjustment has been made to the related decommissioning asset (note 8).

Notes to the financial statements (continued)

12 Called up share capital

	Number of Shares '000	As at 31 December 2003 £000
Ordinary shares of £1 each		
Authorised	50,000	50,000
Allotted, called up and fully paid	4,500	4,500

13 Reserves

	Profit & Loss Account £000
Balance as at 1 January 2003	(9,385)
Loss for the year	(1,629)
Balance as at 31 December 2003	**(11,014)**

14 Reconciliation of movements in shareholder's deficit

	2003 £000
Loss for the year	(1,629)
Net movement in shareholders deficit for the year	(1,629)
Shareholders deficit at 1 January 2003	(4,885)
Shareholders deficit as at 31 December 2003	**(6,514)**

15 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. 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.

Notes to the financial statements (continued)

16 Ultimate parent company

Centrica plc, a company registered in the United Kingdom, is the ultimate holding 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.