

Centrica Offshore UK Limited  
Annual report for the year ended 31 December 2005

Registered Number: 04248952



**Directors' report for the year ended 31 December 2005**

The directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2005.

**Principal activities**

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

**Review of business and future developments**

The Rough facility is currently used as a storage facility by the immediate parent company. The Company has the right to extract the remaining gas once storage has finished, expected to be around 2027. In 2005 the Company sold 3 billion cubic feet of cushion gas resulting in an operating profit of £17 million. The Company also sells the condensate produced as a consequence of operating as a storage facility. Sales are recognised in the profit and loss account during the year.

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

**Review of results and dividend**

The results for the year are set out in the profit and loss account on page 6. The retained profit for the year of £7.7 million (2004: loss of £1.6 million) has been transferred to reserves. The directors do not recommend the payment of a dividend in respect of the year (2004: £nil).

**Directors**

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

G E Sibbick  
B D Walker  
M J Garstang

**Directors' interests in shares**

At no time during the year did any Director holding office at 31 December 2005 have any interests in the shares of the Company (31 December 2004: 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 2005 (continued)

Beneficial interest in ordinary shares

	As at 31 December 2005	As at 31 December 2004
M J Garstang	12,541	---
G E Sibbick	1,272	363
B D Walker	3,213	3,587

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

On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of 9 new ordinary shares of 6 14/81 pence per share for every 10 existing ordinary shares of 5 5/9 pence per share.

Centrica Sharesave scheme

	As at 31 December 2005	Options granted during the year	Options exercised during the year	As at 31 December 2004
M J Garstang	---	---	---	---
G E Sibbick	---	---	---	---
B D Walker	12,327	---	---	12,327

Centrica Executive Share Option scheme

	As at 31 December 2005	Options granted during the year	Options exercised during the year	As at 31 December 2004
M J Garstang	---	---	---	---
G E Sibbick	---	---	---	---
B D Walker	---	---	---	---

Long-term Incentive scheme

	As at 31 December 2005	Allocations made during the year	Allocations transferred during the year	Lapsed during the year	As at 31 December 2004
M J Garstang	78,251	25,147	36,609	4,664	94,377
G E Sibbick	18,346	18,346	---	---	---
B D Walker	91,016	27,290	42,451	5,468	111,645

**Directors' report for the year ended 31 December 2005 (continued)**

Total allocations as at 31 December 2005 shown above include allocations of shares that are subject to challenging performance conditions. At the end of the performance period the Total Shareholder Return of Centrica plc will be assessed against that of the relevant comparator group. If, and to the extent that, the performance conditions are met, the relevant number of shares will be released to the Directors at the Trustee's discretion as soon as practicable thereafter. A conditional allocation of shares was made under the terms of the scheme on 1 April 2005 at a price of 228.7 pence per share.

Details of the Sharesave Scheme, the Long Term Incentive scheme and the Share Incentive Plan, can be found in the 2005 accounts of Centrica plc, copies of which can be obtained from the Secretariat Department of Centrica plc or from [www.centrica.com](http://www.centrica.com).

The middle market price of Centrica plc ordinary shares on the last day of trading in 2005 (30 December) was 254.75 pence. The range during the year was 264.75 pence (high) and 217.5 pence (low).

As at 31 December 2005, no shares and 2,591 shares (1 January 2005: 6,370,264 and 2,548) were held by the respective Trustees of the employee share trusts for the purposes of the Long-term incentive scheme and the Share Incentive Plan. As with other employees, the Directors are deemed to have a potential interest in those shares, being beneficiaries under the trusts.

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.

**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. There have been no disclosable related party transactions during the year (2004: £nil).

**Charitable and political donations**

The Company made no political or charitable donations during the year (2004: £nil).

**Directors' report for the year ended 31 December 2005 (continued)**

**Gas reserves (unaudited)**

The Company has estimated proven and probable gas reserves in the UK. Estimates are made by management based on the results of reserve studies performed by independent third party consultants. The principal field is the Rough field, with estimated net proven and probable reserves of 185 billion cubic feet at 31 December 2005 (2004: 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.

**Financial risk management**

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

The Company has a Financial Risk Management Committee which meets on a regular basis.

**Liquidity**

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.

**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 2005 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 18 July 2006.



Philip Davies  
Company Secretary

Date: 13 July 2006

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

## INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CENTRICA OFFSHORE UK LIMITED

We have audited the financial statements of Centrica Offshore UK Limited for the year ended 31 December 2005 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

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 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 2005 and of its profit 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

14 July 2006

**Profit and loss account**

**For the year ended 31 December 2005**

	Notes	2005 £000	2004 £000
Turnover	2	639	692
Exceptional turnover	2	16,906	-
<b>Total turnover</b>		<b>17,545</b>	<b>692</b>
Operating costs	3	(567)	(112)
<b>Operating profit</b>	3	<b>16,978</b>	<b>580</b>
Net interest payable and similar charges	4	(3,501)	(3,686)
<b>Profit/(loss) on ordinary activities before taxation</b>		<b>13,477</b>	<b>(3,106)</b>
Tax on ordinary activities	7	(5,758)	1,474
<b>Profit/(loss) on ordinary activities after taxation and retained profit /(loss) for the period</b>	15	<b>7,719</b>	<b>(1,632)</b>

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

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

There is no difference between the retained profit /(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

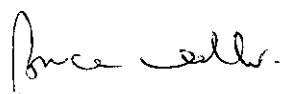
## Balance sheet

As at 31 December 2005

	Notes	2005 £000	2004 £000
<b>Fixed assets</b>			
Tangible assets	8	<u>33,130</u>	<u>33,654</u>
<b>Current assets</b>			
Debtors - amounts falling due within one year	9	18,893	1,384
- deferred tax falling due after more than one year	10	<u>22,407</u>	<u>20,932</u>
		<u>41,300</u>	<u>22,316</u>
<b>Creditors:</b>			
Amounts falling due within one year	11	<u>(7,382)</u>	<u>(142)</u>
<b>Net current assets</b>		<u>33,918</u>	<u>22,174</u>
<b>Total assets less current liabilities</b>		<u>67,048</u>	<u>55,828</u>
<b>Provisions for liabilities and charges</b>	12	<u>(67,475)</u>	<u>(63,974)</u>
<b>Net assets /(liabilities)</b>		<u>(427)</u>	<u>(8,146)</u>
<b>Capital and reserves</b>			
Called up share capital	14	4,500	4,500
Profit and loss account	15	<u>(4,927)</u>	<u>(12,646)</u>
<b>Equity shareholder's funds/(deficit)</b>	16	<u>(427)</u>	<u>(8,146)</u>

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

The financial statements on pages 6 to 15 were approved and authorised for issue by the Board of Directors on 13 July 2006 and were signed on its behalf by:



Bruce Walker

Director

13 July 2006



**Notes to the financial statements**

**1 Principal accounting policies**

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

***Exemptions***

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

***Tangible fixed assets***

Tangible fixed assets are stated at historical cost less accumulated depreciation and any provision for impairment. Depreciation is calculated so as to write-off the cost of tangible fixed assets, less their estimated residual values, on a unit of gas production basis.

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

***Decommissioning costs***

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

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

***Taxation***

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

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation

**Notes to the financial statements (continued)**

**1 Principal accounting policies (continued)**

***Taxation (continued)***

to pay more tax in the future or a right to pay less tax in the future have occurred at 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 there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

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

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

***Petroleum revenue taxes***

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

**2 Turnover**

Turnover is stated as amounts invoiced to customers for the sale of condensate and excludes value added tax. Turnover relates to UK operations only. Exceptional turnover in 2005 relates to the sale of 3 billion cubic feet of cushion gas for £16.9 million. Turnover for 2004 includes £0.1 million relating to condensate sales delivered to customers in 2003 but recognised in 2004. A reconciliation process during 2004 highlighted an under billed amount in relation to 2003 condensate sales. The revenue was then collected from the appropriate counterparties during 2004.

**Notes to the financial statements (continued)**

**3 Operating profit**

- (i) The profit on ordinary activities before taxation is stated after charging audit fees payable to the Company auditors for audit services amounting to £7,000 (period ended 31 December 2004: £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 and depreciation of £524,000 (2004: £nil).

**4 Net interest payable and similar charges**

	2005 £000	2004 £000
Unwinding of discount on decommissioning provision (note 12)	3,501	3,686
	<u>3,501</u>	<u>3,686</u>

**5 Staff costs**

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

**6 Directors' emoluments**

None of the directors received nor were due remuneration during the year from the Company (2004: £nil).

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

## Notes to the financial statements (continued)

## 7 Taxation on Profit / (Loss) on ordinary activities

<b>(a) Analysis of tax charge in the period</b>	<b>2005</b>	<b>2004</b>
The tax charge/ (credit) comprises:	<b>£000</b>	<b>£000</b>
<b>Current tax</b>		
UK corporation tax on profit / (loss) for the period at 40% (2004: 40%)	7,001	-
Adjustments in respect of prior years	232	
Total current tax	7,233	-
<b>Deferred tax</b>		
Origination and reversal of timing differences	(1,475)	(1,474)
Adjustment in respect of prior years	-	-
Taxation on profit / (loss) on ordinary activities	<u>5,758</u>	<u>(1,474)</u>

**(b) Factors affecting the tax charge for the period**

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

	<b>2005</b>	<b>2004</b>
	<b>£000</b>	<b>£000</b>
Profit/ (Loss) on ordinary activities before tax	13,477	(3,106)
Profit/ (Loss) on ordinary activities multiplied by the standard rate of tax of 30% (period ended 31 December 2004: 30%)	4,043	(931)
Expenses not deductible for tax purposes	157	-
Utilisation of timing differences including losses	1,051	1,106
Supplementary charge applicable to upstream profits	1,750	-
Group Relief	-	(175)
Adjustments in respect of prior years	232	-
Current taxation charge for the period	<u>7,233</u>	<u>-</u>

## Notes to the financial statements (continued)

## 8 Tangible fixed assets

	Cushion gas £000	Decommissioning £000	Total £000
<b>Cost</b>			
As at 1 January 2005 and 31 December 2005	33,101	11,643	44,744
<b>Accumulated depreciation</b>			
As at 1 January 2005	(11,090)	-	(11,090)
Charge for the year	(338)	(186)	(524)
As at 31 December 2005	(11,428)	(186)	(11,614)
<b>Net book value as at 31 December 2005</b>	<b>21,673</b>	<b>11,457</b>	<b>33,130</b>
Net book value as at 31 December 2004	22,011	11,643	33,654

## 9 Debtors amounts falling due within one year

	2005 £000	2004 £000
Amount owed by group undertakings	18,893	1,384
	<b>18,893</b>	<b>1,384</b>

Amounts owed by group undertakings include £2.0 million (2004: £1.1 million) of deposits with group treasury which are unsecured, have no fixed date of repayment, and bear interest at LIBOR. £16.9 million relates to trading activity and is non-interest bearing.

Notes to the financial statements (continued)

10 Deferred tax falling due after more than one year

	2005 £000	2004 £000
Deferred taxation (note 13)	22,407	20,932
	<u>22,407</u>	<u>20,932</u>

11 Creditors (amounts falling due within one year)

	2005 £000	2004 £000
Accruals	-	-
Amount due to group undertakings (non-interest bearing)	149	142
Taxation and social security	7,233	-
	<u>7,382</u>	<u>142</u>

12 Provisions for liabilities and charges

	Decommissioning Costs £000
Balance as at 1 January 2004	63,974
Unwinding of discount (note 4)	3,501
<b>Balance as at 31 December 2005</b>	<u><b>67,475</b></u>

*Decommissioning costs*

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

Notes to the financial statements (continued)

13 Deferred taxation

The deferred tax asset is reconciled as follows:

Deferred taxation	2005 £000	2004 £000
Balance as at 1 January	20,932	19,458
Profit and loss movement	<u>1,475</u>	<u>1,474</u>
<b>Balance as at 31 December</b>	<b><u>22,407</u></b>	<b><u>20,932</u></b>

All amounts included in the deferred tax asset are due after more than one year.

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

14 Called up share capital

	2005 £000	2004 £000
Authorised 50,000,000 Ordinary shares of £1 each	50,000	50,000
	<u>          </u>	<u>          </u>
Allotted, called up and fully paid 4,500,000 ordinary shares of £1	<u>4,500</u>	<u>4,500</u>

15 Reserves

	Profit & Loss Account £000
Balance as at 1 January 2005	(12,646)
Profit for the year	<u>7,719</u>
<b>Balance as at 31 December 2005</b>	<b><u>(4,927)</u></b>

## Notes to the financial statements (continued)

## 16 Reconciliation of movements in shareholder's funds / (deficit)

	2005 £000	2004 £000
Profit for the year	7,719	(1,632)
Net movement in shareholders funds / (deficit) for the year	7,719	(1,632)
Shareholders deficit at 1 January	(8,146)	(6,514)
<b>Shareholders funds / (deficit) as at 31 December</b>	<b>(427)</b>	<b>(8,146)</b>

## 17 Contingent liability

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

The Rough gas field is expected to continue as a storage facility until 2027 and as at the time of signing the financial statements the production profile for the native gas and associated oil allowances have not been determined in detail. However, it is the Company's best estimate that no further Petroleum Revenue Tax will be payable and therefore no provision has been made in these financial statements.

## 18 Ultimate parent company

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

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