Centrica Offshore UK Limited
Annual report for the year ended 31 December 2006

Registered Number: 04248952

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Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2006

The Directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2006

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, Centrica Storage Ltd The Company has the right to extract the remaining gas once storage has finished, which is expected to be around 2027 In 2005 the Company sold 3 billion cubic feet of cushion gas resulting in an operating profit of £16 9 million There were no recurring sales in 2006 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, until the extraction of the remaining cushion gas occurs 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 £8 7 million (2005 £7 7 million) has been transferred to the reserves The directors do not recommend the payment of a dividend in respect of the year (2005 £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' 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 Neither the indemnity nor insurance provide cover in the event that the director is proved to have acted fraudulently

Directors' report for the year ended 31 December 2006 (continued)

Charitable and political donations

The Company made no political or charitable donations during the year (2005 £nil)

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 2006 (2005 185 billion cubic feet)

Independent 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

Principal risks and uncertainties

The management of the business are subject to the risks outlined below Further discussion of these risks and uncertainties in the context of the group as a whole is provided on page 22 to 23 of the Centrica plc annual report

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 Centrica Storage group of companies has a Financial Risk Management Committee which meets on a regular basis

The Company does not undertake hedging of any kind

Liquidity Risk

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

Key performance indicators ("KPIs")

Given the straightforward nature of the business the Company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance, or position of the business

Directors' report for the year ended 31 December 2006 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements, the directors are required to
- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

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

Disclosure of information to auditors

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

Post Balance Sheet Events

There have been no post balance sheet events that require disclosure

This report was approved by the Board on 8 November 2007

Company Secretary

Date 8 November 2007

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 of Centrica Offshore UK Limited (the company) for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland) This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed

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

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements

Centrica Offshore UK Limited

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRICA OFFSHORE UK LIMITED (Continued)

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 2006 and of its profit for the year then ended,

- the financial statements have been properly prepared in accordance with the Companies Act 1985, and

- the information given in the Directors' Report is consistent with the financial statements

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

13th November 2007

Profit and loss account
For the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Turnover	2	500	639
Exceptional turnover	2	-	16,906
Total turnover		500	17,545
Operating costs	3	(149)	(567)
Operating profit	3	351	16,978
Net interest payable and similar charges	4	(2,662)	(3,501)
(Loss)/profit on ordinary activities before taxation		(2,311)	13,477
Tax on ordinary activities	7	11,051	(5,758)
Retained Profit for the financial year	15	8,740	7,719

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 for the year stated above and the historical cost equivalent

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

Centrica Offshore UK Limited

Balance sheet
As at 31 December 2006

	Notes	2006 £000	2005 £000
Fixed assets			
Tangible assets	8	**33,130**	33,130
Current assets			
Debtors - amounts falling due within one year	9	**19,888**	18,893
- deferred tax falling due after more than one year	10	**27,095**	22,407
		46,983	41,300
Creditors:			
Amounts falling due within one year	11	**(633)**	(7,382)
Net current assets		**46,350**	33,918
Total assets less current liabilities		**79,480**	67,048
Provisions for liabilities and charges	12	**(71,167)**	(67,475)
Net assets/(liabilities)		**8,313**	(427)
Capital and reserves			
Called up share capital	14	**4,500**	4,500
Profit and loss account	15	**3,813**	(4,927)
Equity shareholder's funds/(deficit)	16	**8,313**	(427)

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 and were signed on its behalf by

Bruce Walker
Director
8th November **2007**

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 for one year from the date of these financial statements The financial statements are prepared under the historical cost convention and in accordance with the Companies Act 1985 and applicable UK accounting standards

Exemptions

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

As a result of Centrica Storage Limited's operation of the Rough storage facility some condensate may be produced, title over which is held by Centrica Offshore UK Limited No depreciation is recognised in relation to this production as condensate is considered a low value bi-product The company policy is to recognise depreciation only on production of cushion gas

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 to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted

Deferred tax is not recognised when fixed assets are 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

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 (year ended 31 December 2005 £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 £141,000 (2005 £524,000)

Notes to the financial statements (continued)

4 Net interest payable and similar charges

	2006	2005
	£000	£000
Unwinding of discount on decommissioning		
provision (note 12)	3,692	3,501
net interest receivable	(1,030)	
	2,662	3,501

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 (2005 £nil)

The emoluments of two of the directors (G E Sibbick & B D Walker) who served during the year were paid by the parent company, Centrica Storage Limited An associated undertaking paid one other director (M J Garstang) 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

2 directors exercised share options in the shares of the ultimate parent company, Centrica plc in 2006 (2005 2)

Centrica Offshore UK Limited

Notes to the financial statements (continued)

7 Taxation on (Loss)/Profit on ordinary activities

(a) Analysis of Tax charge in the period

The tax charge/(credit) comprises of	2006 £000	2005 £000
Current tax		
United Kingdom corporation tax at 30% (2005 30%) based on profit/(loss) for the period	**390**	5,251
- Supplemental upstream tax at 20% (2005 10%)	**53**	1,750
-Adjustment in respect of prior years	**(6,806)**	232
Total current tax	**(6,363)**	7,233
Deferred tax		
- Effect of increase in supplementary charge rate	**(4,221)**	-
- origination and reversal of timing differences	**(1,847)**	(1,475)
- Adjustment in respect of prior year	**1,380**	-
Total Deferred Tax	**(4,688)**	(1,475)
Total tax on profit/(loss) on ordinary activities	**(11,051)**	5,758

(b) Factors affecting the tax charge for the period

	2006 £000s	2005 £000s
Profit/(Loss) on ordinary activities before tax	**(2,311)**	13,477
Tax on profit/(loss) on ordinary activities at standard corporation tax rate of 30% (2005 30%)	**(693)**	4,043
Effects of		
Expenses not deductible for tax purposes	-	157
Utilisation of timing differences including losses	**1,108**	1,051
Supplementary charge applicable to upstream profit	**53**	1,750
UK UK transfer price adjustment	**(25)**	-
Adjustments in respect of prior year	**(6,806)**	232
Current tax charge for the period	**(6,363)**	7,233

Notes to the financial statements (continued)

8 Tangible fixed assets

	Cushion gas £000	Decommissioning £000	Total £000
Cost			
As at 1 January 2006	33,101	11,643	44,744
Accumulated depreciation			
As at 1 January 2006	(11,428)	(186)	(11,614)
Charge for the year	-	-	-
As at 31 December 2006	(11,428)	(186)	(11,614)
Net book value as at 31 December 2006	**21,673**	**11,457**	**33,130**
Net book value as at 31 December 2005	21,673	11,457	33,130

9 Debtors amounts falling due within one year

	2006 £000	2005 £000
Amount owed by group undertakings	**19,888**	18,893
	19,888	18,893

Amounts owed by group undertakings include £19 9 million (2005 £2 0 million) of deposits with group treasury which are unsecured, have no fixed date of repayment, and bear interest at LIBOR (2005 included £16 9m relating to trading activity and was non-interest bearing)

10 Deferred tax falling due after more than one year

	2006 £000	2005 £000
Deferred tax asset (note 13)	**27,095**	22,407
	27,095	22,407

11 Creditors (amounts falling due within one year)

	2006 **£000**	2005 £000
Amount due to group undertakings (non-interest bearing)	-	149
Taxation and social security	**633**	7,233
	633	7,382

12 Provisions for liabilities and charges

	Decommissioning Costs £000
Balance as at 1 January 2006	**67,475**
Unwinding of discount (note 4)	**3,692**
Balance as at 31 December 2006	**71,167**

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	**2006 £000**	2005 £000
Balance as at 1 January	**22,407**	20,932
Profit and loss movement	**4,688**	1,475
Balance as at 31 December	**27,095**	22,407

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

The increase in the deferred tax asset in the year is due to (i) the unwinding of the decommissioning provision and (ii) legislative changes to North Sea tax under the introduction of the Finance Act 2007 which increases the effective rate to 50% from 40% This increase has been offset by recognising the deferred tax liability of £2 8m (2005 nil) for supplementary North Sea Tax on the sale of cushion gas in 2005 The liability is expected to crystalise in 2028 when the volume of the reservoir is expected to drop below the point which would trigger a taxable charge This value is calculated using the 3bcf sale volume at the forward price for gas in 2028 estimated at 31 December 2006. No unrecognised deferred tax balances exist at the balance sheet date

14 Called up share capital

	2006	2005
Authorised 50,000 Ordinary shares of £1 each	50,000	50,000
Allotted, called up and fully paid 4,500 Ordinary shares of £1	4,500	4,500

15 Reserves

	Profit & Loss Account £000
Balance as at 1 January 2006	**(4,927)**
Profit for the year	**8,740**
Balance as at 31 December 2006	**3,813**

Notes to the financial statements (continued)

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

	2006 £000	2005 £000
Shareholders deficit at 1 January	(427)	(8,146)
(Loss)/Retained Profit for the year	8,740	7,719
Shareholders funds/(deficit) as at 31 December	**8,313**	(427)

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 or www centrica com