

Centrica Offshore UK Limited  
Annual report for the year ended 31 December 2007

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# **Centrica Offshore UK Limited**

## **Directors' report for the year ended 31 December 2007**

The Directors present their report and the audited Financial Statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2007

### **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.

### **Business review**

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. The Company 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.

### **Financial results**

The results for the year are set out in the Profit and Loss account on page 5. The loss for the year of £1.4 million (2006: profit of £8.7 million) has been deducted from reserves.

### **Dividends**

The directors do not recommend the payment of a dividend in respect of the year (2006: £nil).

### **Principal risks and uncertainties**

The management of the business and the execution of the Company's Strategy 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 pages 25 to 27 of the Centrica plc Annual Report and Accounts 2007.

### **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.

### **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.

## **Centrica Offshore UK Limited**

### **Directors' report for the year ended 31 December 2007 (continued)**

#### **Key performance indicators**

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

#### **Future Developments**

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.

#### **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 (resigned on 27th June 2008)

At no time during the year ended 31 December 2007 did any director have any interests in the shares of the Company (2006: nil) or any other company within the Group, except for interests in and options over the shares and interests of the ultimate parent company, Centrica plc.

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

#### **Charitable and political donations**

The Company made no political or charitable donations during the year (2006: £nil).

#### **Directors' liability**

Directors' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review. Neither the indemnity nor insurance provide cover in the event that the director is proved to have acted fraudulently.

#### **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 2007 (2006: 185 billion cubic feet).

**Directors' report for the year ended 31 December 2007 (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 Directors' Report confirm that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and he has taken all steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

**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.

This report was approved by the Board on 18th July 2008



Julia Hui Ching Foo  
Company Secretary

Date 18th July 2008

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 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

**Respective responsibilities of directors and auditors**

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

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

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

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

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

**Basis of audit opinion**

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

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

**Opinion**

In our opinion:

- the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its loss 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  
Chartered Accountants and Registered Auditors  
London

18 July 2008

## Centrica Offshore UK Limited

### Profit and Loss account For the year ended 31 December 2007

		Notes	2007 £000	2006 £000
Turnover	1		357	500
Operating costs	2		<u>(147)</u>	<u>(149)</u>
<b>Operating profit</b>	2		210	351
Net interest payable and similar charges	3		<u>(3,803)</u>	<u>(2,662)</u>
<b>Loss on ordinary activities before taxation</b>			(3,593)	(2,311)
Tax on ordinary activities	6		2,188	11,051
<b>Profit/(Loss) for the financial year</b>	14		<u>(1,405)</u>	<u>8,740</u>

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 loss on ordinary activities before taxation and retained loss for the year stated above and their historical cost equivalent.

The notes on pages 7 to 14 form part of these Financial Statements.

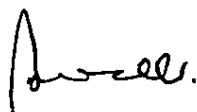
# Centrica Offshore UK Limited

## Balance Sheet As at 31 December 2007

	Notes	2007 £000	2006 £000
<b>Fixed assets</b>			
Tangible assets	7	<u>66,826</u>	<u>33,130</u>
<b>Current assets</b>			
Debtors - amounts falling due within one year	8	21,608	19,888
- deferred tax falling due after more than one year	9	<u>29,606</u>	<u>27,095</u>
		<b>51,214</b>	<b>46,983</b>
<b>Creditors:</b>			
Amounts falling due within one year	10	<u>(1,282)</u>	<u>(633)</u>
<b>Net current assets</b>		<b>49,932</b>	<b>46,350</b>
<b>Total assets less current liabilities</b>		<b>116,758</b>	<b>79,480</b>
<b>Provisions for liabilities and charges</b>	11	<u>(109,850)</u>	<u>(71,167)</u>
<b>Net assets</b>		<b>6,908</b>	<b>8,313</b>
<b>Capital and reserves</b>			
Called up share capital	13	4,500	4,500
Profit and Loss account	14	<u>2,408</u>	<u>3,813</u>
<b>Equity shareholder's funds</b>	15	<b>6,908</b>	<b>8,313</b>

The notes on pages 7 to 14 form part of these Financial Statements

The Financial Statements on pages 5 to 14 were approved and authorised for issue by the Board of Directors and were signed on its behalf by



Bruce Walker  
Director  
18th July 2008

**Notes to the Financial Statements**

**1 Principal accounting policies**

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

***Exemptions***

The Company has taken advantage of the exemptions available to wholly owned UK subsidiaries under Financial Reporting Standard 1 (Revised 1996) "Cashflow statements", and accordingly has not prepared a cashflow statement. The Company has also taken advantage of 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. Changes in these estimates and changes to the discount rates are dealt with prospectively and reflected as an adjustment to the provision and corresponding decommissioning asset included within property, plant and equipment. 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



**Notes to the Financial Statements (continued)**

***Taxation***

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

Deferred 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

***Financial Instruments: Disclosure and Presentation***

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

The Company is exempted by FRS 29 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into disclosures in note 4 (page 69) of the Centrica plc Annual Report and Accounts 2007

***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

***Turnover recognition***

Turnover is stated as amounts invoiced to customers for the sale of condensate and excludes value added tax. Turnover relates to UK operations only

# Centrica Offshore UK Limited

## Notes to the Financial Statements (continued)

### 2 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 £5,000 (year ended 31 December 2006 £7,000) No fees were paid to the auditors of the Company for non-audit services
- (ii) Other operating costs represent charges for the annual production licence fees of £142,000 (2006 £141,000)

### 3 Net interest payable and similar charges

	2007 £000	2006 £000
Unwinding of discount on decommissioning provision (note 11)	4,987	3,692
Interest receivable	(1,184)	(1,030)
	<u>3,803</u>	<u>2,662</u>

### 4 Staff costs

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

### 5 Directors' emoluments

None of the directors received nor were due remuneration during the year from the Company (2006 £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 2007 (2006 2)

# Centrica Offshore UK Limited

## Notes to the Financial Statements (continued)

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

#### (a) Analysis of Tax charge in the period

The tax charge/(credit) comprises of	2007 £000s	2006 £000s
<b>Current tax</b>		
United Kingdom corporation tax at 30% (2006 30%) based on profit/(loss) for the period	395	390
- Supplemental upstream tax at 20% (2006 20%)	27	53
- Adjustment in respect of prior years	(99)	(6,806)
<b>Total current tax</b>	<b>323</b>	<b>(6,363)</b>
<b>Deferred tax</b>		
- Effect of increase in supplementary charge rate	-	(4,221)
- origination and reversal of timing differences	(2,511)	(1,847)
- Adjustment in respect of prior year	-	1,380
<b>Total Deferred Tax</b>	<b>(2,511)</b>	<b>(4,688)</b>
<b>Total tax on profit/(loss) on ordinary activities</b>	<b>(2,188)</b>	<b>(11,051)</b>

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

The difference between the total 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

	2007 £000s	2006 £000s
Profit/(Loss) on ordinary activities before tax	(3,593)	(2,311)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	(1,078)	(693)
Effects of		
Utilisation of timing differences	1,496	1,108
20% supplementary charge (UK upstream) current	27	53
UK UK transfer price adjustment	(23)	(25)
Adjustments in respect of previous periods	(99)	(6,806)
<b>Current tax charge/(credit) for the period</b>	<b>323</b>	<b>(6,363)</b>

Notes to the Financial Statements (continued)

**7 Tangible fixed assets**

	<b>Cushion gas £000</b>	<b>Decommissioning £000</b>	<b>Total £000</b>
<b>Cost</b>			
As at 1 January 2007	33,101	11,643	44,744
Additions	-	33,696	33,696
<b>As at 31 December 2007</b>	<b>33,101</b>	<b>45,339</b>	<b>78,440</b>
<b>Accumulated depreciation</b>			
As at 1 January 2007	(11,428)	(186)	(11,614)
Charge for the year	-	-	-
<b>As at 31 December 2007</b>	<b>(11,428)</b>	<b>(186)</b>	<b>(11,614)</b>
<b>Net book value as at 31 December 2007</b>	<b>21,673</b>	<b>45,153</b>	<b>66,826</b>
Net book value as at 31 December 2006	21,673	11,457	33,130

The decommissioning asset was increased by £33.7m following a review of the estimated cost of decommissioning by an independent expert (see note 11)

**8 Debtors (amounts falling due within one year)**

	<b>2007 £000</b>	<b>2006 £000</b>
Amount owed by group undertakings	21,608	19,888
	<b>21,608</b>	<b>19,888</b>

Amounts owed by group undertakings include £21.6 million (2006 £19.9 million) of deposits with group treasury which are unsecured, have no fixed date of repayment and bear interest at LIBOR

**9 Deferred tax falling due after more than one year**

	<b>2007 £000</b>	<b>2006 £000</b>
Deferred tax asset (note 12)	29,606	27,095
	<b>29,606</b>	<b>27,095</b>

The proposed reduction in the rate of UK corporation tax from 30% to 28% as per the 2007 budget was substantively enacted on 26 June 2007. As a result deferred tax reversing after 1 April 2008 is calculated at the rate of 28%.

Notes to the Financial Statements (continued)

**10 Creditors (amounts falling due within one year)**

	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Amount due to group undertakings (non-interest bearing)	89	-
Taxation and social security	1,193	633
	<u>1,282</u>	<u>633</u>

**11 Provisions for liabilities and charges**

	<b>Decommissioning Costs £000</b>
Balance as at 1 January 2007	71,167
Revision of estimate (note 7)	33,696
Unwinding of discount (note 3)	4,987
	<u>109,850</u>
<b>Balance as at 31 December 2007</b>	<b>109,850</b>

***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.

In 2007 the decommissioning provision was increased by £33.7m following a report from an independent expert of the estimated cost of decommissioning at the end of the life of the storage asset.

**12 Deferred taxation**

The deferred tax asset is reconciled as follows

<b>Deferred taxation</b>	<b>2007</b>	<b>2006</b>
	<b>£000</b>	<b>£000</b>
Balance as at 1 January	27,095	22,407
Profit and loss movement (note 6)	2,511	4,688
<b>Balance as at 31 December</b>	<u><b>29,606</b></u>	<u><b>27,095</b></u>

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 principally arose as part of the acquisition of the Rough production license. No unrecognised deferred tax balances exist at the balance sheet date.

# Centrica Offshore UK Limited

## Notes to the Financial Statements (continued)

### 13 Called up share capital

	2007 £000	2006 £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	4,500	4,500
	<u>          </u>	<u>          </u>

### 14 Reserves

	Profit & Loss Account £000
Balance as at 1 January 2007	3,813
Loss for the year	(1,405)
Balance as at 31 December 2007	<u>2,408</u>

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

	2007 £000	2006 £000
Shareholders funds/(deficit) at 1 January	8,313	(427)
Retained profit/(loss) for the year	(1,405)	8,740
Shareholders funds as at 31 December	<u>6,908</u>	<u>8,313</u>

**Notes to the Financial Statements (continued)**

**16 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

**17 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](http://www.centrica.com)