Centrica Offshore UK Limited
Annual Report for the year ended 31 December 2010

Registered Number: 4248952

Centrica Offshore UK Limited

Directors' report for the year ended 31 December 2010

The directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2010

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 2006, 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 Limited The Company has the right to extract the remaining gas once storage has finished, which is expected to be around 2029 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

The Company has increased its share of the York production licence to 100 percent during the year and sold the beneficial interest in the field to Centrica Resources Limited

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 Centrica plc (the "Group) as a whole is provided on pages 30 to 36 of the Centrica plc Annual Report and Accounts 2010

Financial risk management

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

The Centrica Storage Holdings 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 Centrica Storage Holdings group of companies 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

Directors' report for the year ended 31 December 2010 (continued)

Key performance indicators (KPIs)

Given the 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 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 taking into account the estimated present value of the cushions gas

Results and dividends

The results for the year are set out in the Profit and Loss Account on page 5 The loss for the year of £3 1 million (2009 loss of £1 6 million) has been transferred to reserves

In 2010 no dividend was paid on ordinary shares (2009 nil) and the Directors do not recommend the payment of a final dividend

Financial Position

The financial position of the Company is presented in the Balance Sheet on page 6 Shareholder's funds at 31 December 2010 were £24 5 million (2009 £27 6 million)

Directors

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

G S Collinson
S M Wills
N Cohrs (appointed 19 July 2010)
G E Sibbick (resigned 19 July 2010)

At no time during the year ended 31 December 2010 did any director have any interests in the shares of the Company (2009 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 (2009 nil).

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review The insurance does not 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 181 billion cubic feet (bcf) at 31 December 2010 (2009 181 bcf) 1 5 million therms of cushion gas was sold during the year (2009 nil)

Post balance sheet events

There were no reportable events after the balance sheet date

Directors' report for the year ended 31 December 2010 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Directors' 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 prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law, the directors must not approve the financial statements unless they are satisfied that they 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 these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and accounting 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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and 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 2006 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 they are aware, there is no relevant audit information of which the Company's auditors are unaware and they have taken all the steps that they ought to have taken as Directors to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

Independent auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the Board on 22 June 2011

Julia Foo
Company Secretary

Date 22 June 2011

Company number 4248952, Registered in England and Wales

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

Independent auditors' report to the member of Centrica Offshore UK Limited

We have audited the financial statements of Centrica Offshore UK Limited (the "Company") for the year ended 31 December 2010 which comprise the Profit and Loss Account, the Balance Sheet and the related notes The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

Respective responsibilities of directors and auditors

As explained more fully in the Statement of directors' responsibilities set out on page 3, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors

This report, including the opinions, has been prepared for and only for the company's member as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose We do not, in giving these opinions, 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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error This includes an assessment of whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

Bruce Collins

Bruce Collins (Senior Statutory Auditor)
For and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
23 June 2011

Profit and Loss Account
For the year ended 31 December 2010

	Notes	2010 £000	2009 £000
Turnover	2	**1,143**	193
Administrative expenses	3	**(216)**	(260)
Operating profit/(loss)	3	**927**	(67)
Net interest payable and similar charges	4	**(2,622)**	(2,588)
Loss on ordinary activities before taxation		**(1,695)**	(2,655)
Tax on loss on ordinary activities	7	**(1,426)**	1,064
Loss for the financial year	15	**(3,121)**	(1,591)

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 loss for the years stated above and their historical cost equivalent

The notes on pages 7 to 14 form part of these financial statements

Balance Sheet
As at 31 December 2010

	Notes	2010 £000	2009 £000
Fixed assets			
Tangible assets	8	**74,095**	80,355
Current assets			
Debtors	9	**55,715**	41,820
Deferred Tax Asset	10	**32,378**	28,333
		88,093	70,153
Creditors amounts falling due within one year	11	**(10,815)**	(1,866)
Net current assets		**77,278**	68,287
Total assets less current liabilities		**151,373**	148,642
Provisions for liabilities	12	**(126,899)**	(121,047)
Net assets		**24,474**	27,595
Capital and reserves			
Called up share capital	13	**4,500**	4,500
Profit and loss account	14	**19,974**	23,095
Total shareholder's funds	15	**24,474**	27,595

These financial statements on pages 5 to 14 were approved and authorised for issue by the board of directors on 22 June 2011 and were signed on its behalf by

Simon Wills
Director
22 June 2011

The notes on pages 7 to 14 form part of these financial statements

The Company's registered number is 4248952

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 2006 and applicable UK accounting standards These policies have been applied consistently to all the years presented, unless otherwise stated

Exemptions

The company is a wholly-owned subsidiary of Centrica plc and is included in the consolidated financial statements of Centrica plc, which are publicly available Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised 1996) The company is also exempt under the terms of FRS 8 from disclosing related-party transactions with entities that are part of the Centrica plc group or investees of the Centrica plc group

Tangible assets

Tangible assets are stated at historical cost less accumulated depreciation and any provision for impairment

The initial cost of an asset comprises its purchase price or construction cost and any costs directly attributable to bringing the asset into operation The purchase price or construction cost and any costs is the aggregate amount paid and the fair value of any other consideration given to acquire the asset

Subsequent expenditure in respect of items of tangible assets such as the replacement of major parts, major inspections or overhauls, are capitalised as part of the cost of the related asset where it is probable that future economic benefits will arise as a result of the expenditure and the cost can be reliably measured All other subsequent expenditure, including the costs of day-to-day servicing, repairs and maintenance, is expensed as incurred

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 for Cushion gas and decommissioning asset

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 by-product The Company policy is to recognise depreciation only on production of cushion gas on a unit of production basis

Impairment losses or impairment write backs of tangible assets are calculated as the difference between the carrying values of income generating units and the estimated recoverable amount at the date the impairment or write back is recognised The recoverable amount is the higher of value in use and fair value less costs to sell Value in use represents the net present value of future net revenues discounted on a pre-tax basis Impairment losses and the write back of fixed assets are recognised in the Profit and Loss Account in the year in which they occur

Decommissioning costs

Operators of oil and gas fields on the United Kingdom Continental Shelf are required to remove installations at the end of their useful lives to the extent considered acceptable to the Department of Energy and Climate Change

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

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

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 financial statements and its financial instruments are incorporated into disclosures in note 4 (page 83 to 87) of the Centrica plc Annual Report and Accounts 2010

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 sufficient 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

Turnover

Turnover is stated as amounts invoiced to customers for the sale of condensate and cushion gas and excludes value added tax Turnover is recognised on production of cushion gas or condensate Amounts paid in advance greater than recognised revenue are treated as deferred income, with any paid in arrears recognised as accrued income

Notes to the financial statements (continued)

2 Turnover

Turnover comprises proceeds from the sale of cushion gas and condensates from the Rough asset

	2010 £000	2009 £000
Sale of condensates	**448**	193
Sale of cushion gas	**695**	-
	1,143	193

All sales are made in the UK

3 Operating profit/(loss)

The profit on ordinary activities before taxation is stated after charging audit fees payable to the Company auditors for audit services amounting to £11,992 (2009 £12,075) Auditors' remuneration totalling £11,992 relate to fees for the audit of the UK GAAP statutory accounts of Centrica Offshore UK Limited and includes fees in relation to the audit of the IFRS group consolidation schedules, for the purpose of the Centrica Group audit, which also contribute to the audit of Centrica Offshore UK Limited

No portion of the auditor's remuneration in the current year is borne by another Group company (2009 £nil) No fees were paid to the auditors of the Company for non-audit services

Depreciation charges for the year as a result of sale of cushion gas is £63,000 (2009 £nil)

Other operating costs represent charges for the annual production licence fees of £141,375 (2009 £141,375)

4 Net interest payable and similar charges

	2010 £000	2009 £000
Unwinding of discount on decommissioning provision (note 12)	**2,721**	2,595
Interest receivable	**(99)**	(7)
	2,622	2,588

5 Staff costs

The Company has no employees (2009 nil) and no staff costs (2009 nil) 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 (2009 nil)

The emoluments of three directors (N Cohrs, S M Wills & G E Sibbick) who served during the year were paid by the parent company, Centrica Storage Limited An associated undertaking paid the other director (G S Collinson) who served during the year 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 Loss on ordinary activities

(a) Analysis of tax charge ın the perıod

The tax charge/(credıt) comprıses	**2010 £000**	2009 £000
Current tax		
Unıted Kıngdom corporatıon tax at 28% (2009 28%)	**3,174**	41
Supplemental upstream tax at 22% (2009 20%)	**2,297**	33
Total current tax	**5,471**	74
Deferred tax (Note 10)		
Effect of change to deferred tax rate	**(3,020)**	-
Orıgınatıon and reversal of tımıng dıfferences	**(775)**	(1,138)
Adjustments ın respect of prıor years	**(250)**	-
Total tax on loss on ordınary actıvıtıes	**1,426**	(1,064)

(b) Factors affecting the tax charge for the period

The dıfference between the total current tax shown above and the amount calculated by applyıng the standard rate of UK corporatıon tax to the profit before tax ıs as follows

	2010 £000	2009 £000
Loss on ordınary actıvıtıes before tax	**(1,695)**	(2,655)
Tax on profit on ordınary actıvıtıes at standard UK corporatıon tax rate of 28% (2009 28%)	**(475)**	(743)
Effects of		
Depreciatıon on non-qualıfyıng assets	**5**	-
Addıtıonal charges applıcable to upstream profits	**2,297**	32
Tımıng dıfferences	**775**	727
UK UK transfer prıcıng adjustment	**2,869**	60
Group relıef for nıl consıderatıon	**-**	(2)
Current tax charge for the perıod	**5,471**	74

A number of changes to the UK corporatıon tax system were announced ın the March 2011 Budget Statement The maın rate of corporatıon tax reduced from 28% to 26% from 1 Aprıl 2011 and was substantıvely enacted on 29 March 2011 An ınıtıal reductıon of 1% to 27% effectıve from Aprıl 2011 was enacted by Fınance (No 2) Act 2010 and ıs therefore taken ınto account ın these financıal statements Further reductıons to the maın rate are proposed to reduce the rate by 1% per annum to 23% by 1 Aprıl 2014, and the reductıon to 25% from 1 Aprıl 2012 ıs expected to be enacted by Fınance Act 2011 Beyond the reductıon to 27%, the changes had not been substantıvely enacted at the balance sheet date and, therefore are not ıncluded ın these financıal statements The ımpact of these changes on the deferred tax balances would be an ıncrease to the deferred tax asset of £6 3 mıllıon

Notes to the financial statements (continued)

8 Tangible assets

	Cushion gas	Decommiss-ioning asset	Gas fields	Total
	£000	**£000**	**£000**	**£000**
Cost				
As at 1 January 2010	**33,101**	**50,966**	**9,328**	**93,395**
Additions [1]	**-**	**-**	**26,378**	**26,378**
Inflationary adjustment	-	**3,131**	**-**	**3,131**
Disposals [1]			**(35,706)**	**(35,706)**
As at 31 December 2010	**33,101**	**54,097**	**-**	**87,198**
Accumulated depreciation				
As at 1 January 2010	**(11,880)**	**(1,160)**	**-**	**(13,040)**
Charge for the year	**(18)**	**(45)**	**-**	**(63)**
As at 31 December 2010	**(11,898)**	**(1,205)**	**-**	**(13,103)**
Net book value as at 31 December 2010	**21,203**	**52,893**	**-**	**74,095**
Net book value as at 31 December 2009	21,221	49,806	9,328	80,355

[1] During the year the Company the acquired the remaining interest in York Gas field and sold the beneficial interest in the field to another group company

Notes to the financial statements (continued)

9 Debtors

	2010 £000	2009 £000
Amount owed by group undertakings [(i)]	57,580	41,820
	57,580	41,820

(i) Amounts owed by group undertakings are interest-free, unsecured and repayable on demand

10 Deferred tax falling due after more than one year

The deferred tax asset is reconciled as follows	2010 £000	2009 £000
Deferred tax asset as at 1 January	28,333	27,195
Profit and loss account movement (note 7)	4,045	1,138
Deferred tax asset as at 31 December	32,378	28,333

The deferred corporation tax asset at 50% (2009 50%) is analysed as follows

	2010 £000	2009 £000
Other timing differences		
- Provided for	(32,378)	(28,333)
- Unprovided for	-	-
	(32,378)	(28,333)

11 Creditors: amounts falling due within one year

	2010 £000	2009 £000
Taxation	5,471	1,866
Accruals and deferred Income	5,344	-
	10,815	1,866

Notes to the financial statements (continued)

12 Provisions for liabilities

Decommissioning liabilities	2010 £000	2009 £000
Balance as at 1 January	121,047	115,075
Inflationary increase (note 8)	3,131	2,877
Unwinding of discount (note 4)	2,721	2,595
York decommissioning	-	500
Balance as at 31 December	**126,899**	121,047

The estimated cost of decommissioning at the end of the life of the storage and production facilities is based on engineering estimates and, in the case of the Rough facility, 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 for the Rough facility During the year the Company transferred York decommissioning liability to Centrica Resources Limited with the transfer of beneficial interest

13 Called up share capital

	2010 £000	2009 £000
Authorised share capital		
Ordinary shares of £1 each (i)	-	50,000
Allotted and fully paid		
4,500,000 Ordinary shares of £1	4,500	4,500

(i) In 2009 there were 50,000,000 authorised ordinary shares of the Company

The Company has taken advantage of the provisions of the Companies Act 2006 (the 'Act') to abolish the requirement to have an authorised share capital A Special Resolution was passed by the Company's sole member on 17 February 2010 to delete all provisions of the Company's Memorandum of Association which, by virtue of section 28 of the Act, were treated as provisions of the Company's Articles of Association and revised Articles of Association were adopted

14 Reserves

	Profit & Loss account £000
Balance as at 1 January 2010	23,095
Loss for the financial year	(3,121)
Balance as at 31 December 2010	**19,974**

15 Reconciliation of movements in shareholders' funds

	£000
Shareholders' funds at 1 January 2010 as previously reported	**27,595**
Loss for the financial year	(3,121)
Shareholders' funds as at 31 December 2010	**24,474**

Notes to the financial statements (continued)

16 Contingent liabilities

The Company's accountıng polıcy ıs to provıde for Petroleum Revenue Taxes relatıng to productıon of natıve gas on a unıt of productıon basıs wıth changes ın estımates dealt wıth prospectıvely over the remaınıng lıfe of the gas field

The Rough gas field ıs expected to contınue as a storage facılıty untıl 2029 and as at the tıme of sıgnıng the financıal statements the productıon profile for the natıve gas and assocıated oıl allowances have not been determıned ın detaıl However, ıt ıs the Company's best estımate that no further Petroleum Revenue Tax wıll be payable and therefore no provısıon has been made ın these financıal statements

Durıng the year the Company purchased the remaınıng ınterest ın the York productıon lıcence as descrıbed ın note 8 £14 mıllıon of the total consıderatıon payable ıs contıngent upon approval of the York Fıeld Development Plan by the Department of Busıness, Innovatıon and Skılls and wıll be recognısed once thıs becomes probable

17 Post balance sheet events

There are no reportable events after the balance sheet date

18 Ultimate parent company

Centrıca plc, a company regıstered ın England and Wales, ıs the ultımate parent company and ultımate controllıng party Centrıca plc has a 100 percent ınterest ın the equıty share capıtal of GB Gas Holdıngs Lımıted, whıch ın turn owns 100 percent of Centrıca Storage Holdıngs Lımıted Centrıca Storage Holdıngs Lımıted has a 100 percent ınterest ın the equıty share capıtal of Centrıca Storage Lımıted Centrıca Storage Lımıted ıs the Company's ımmedıate parent undertakıng

Centrıca plc ıs the parent company of the largest and smallest group for whıch consolıdated financıal statements are drawn up Copıes of the ultımate parent company's consolıdated financıal statements can be obtaıned from Centrıca plc, Mıllstream, Maıdenhead Road, Wındsor, Berkshıre SL4 5GD or www centrıca com