Centrica Offshore UK Limited
Annual report for the period ended 31 December 2002

Registered Number: 04248952

Directors' report
For the period ended 31 December 2002

The Directors present their report and the audited financial statements of Centrica Offshore UK Limited (the "Company") for the period of incorporation until 31 December 2002.

Principal activities

The principal activity of the Company is the production of gas in the United Kingdom, which, for the purposes of the Companies Act 1985, constitutes one class of business. Centrica Offshore UK Limited owns the production licence for the Rough storage facility, which is a partially depleted gas field in the United Kingdom.

Review of business and future developments

The Company was incorporated on 10 July 2001, as BGSP Limited. The Company acquired the production licence for the Rough offshore facility from BG Storage Limited, the Company's immediate parent undertaking, at a purchase price of £4.5 million on 15 July 2001. In addition to the production licence being acquired, both the rights and obligations under the production licence, including the decommissioning liability were also acquired. The fair value of this transaction was determined to be equal to the purchase price of £4.5 million.

On 29 November 2001 the Company changed its name to Dynegy Offshore UK Limited following the acquisition of the Company's immediate parent undertaking by Dynegy Europe Limited on 28 November 2001. On 28 June 2002, Dynegy Finance Limited became the Company's intermediate parent undertaking following a transfer of the shares in the Company's immediate parent undertaking from Dynegy Europe Limited. At the same time, Dynegy Finance Limited secured US$250 million in interim financing which represented an advance on a portion of the proceeds from the sale of certain gas storage assets. The interim financing arrangement was secured on the entire share capital of the Company.

On 14 November 2002, ownership of the Company's immediate parent undertaking transferred from Dynegy Finance Limited to Dynegy Europe Limited and then to Centrica Storage Holdings Limited, a wholly owned subsidiary of Centrica plc, a company incorporated in the United Kingdom. At this time, the name of the Company was changed from Dynegy Offshore UK Limited to Centrica Offshore UK Limited.

At the date of sale of the Company's immediate parent undertaking to Centrica Storage Holdings Limited, all encumbrances were removed.

The Company acquired the rights to produce the cushion gas at the Rough facility during the period, however gas will not be produced until such time that the asset is decommissioned as a gas storage facility. The Company will continue to generate some revenues from the sale of condensate from the facility. The Directors do not expect the Company activities to significantly change in the immediate future.

Financial results

The results for the year are set out in the profit and loss account on page 6. The retained loss for the period of £9,385,000 has been transferred to reserves.

The directors do not recommend the payment of a dividend.

Directors' report (continued)

Directors

Directors in post during the period and up to the date of this report were as follows:

A Geddes	10 July 2001	10 July 2002
G T Cardone	28 November 2001	21 March 2002
N Wakefield	28 November 2001	14 November 2002
R D Doty Jr	28 November 2001	29 July 2002
D R Roth	28 November 2001	8 July 2002
M G Scrimshaw	10 July 2002	14 November 2002
M Flinn	21 March 2002	14 November 2002
D N Keane	21 March 2002	18 October 2002
J M Boardman	21 March 2002	26 September 2002
J R Oliver	21 March 2002	14 November 2002
Y Cohen	10 July 2002	14 November 2002
A Bennett	14 November 2002	-
G Stoker	14 November 2002	-

Directors' interests in shares

At no time did any Director holding office at 31 December 2002 have any interest in the shares of the Company 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, set out below.

Beneficial interests in ordinary shares (i)

	As at 31 December 2002	As at date of appointment
A Bennett	28,478	28,410
G Stoker	5,095	5,000

(i) The figures above include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the Centrica share incentive plan (SIP).

Sharesave shares (ii)

	As at 31 December 2002	As at date of appointment
A Bennett	5,462	5,462
G Stoker	5,349	5,349

(ii) Options over shares in Centrica plc were granted in April 2002 at an option of 177.6 pence per share under an all employee savings related share option scheme, the Sharesave scheme.

Centrica Offshore UK Limited

Directors' report (continued)

Directors' interests in shares (continued)

Long Term Incentive Scheme (i) and (ii)

	As at 31 December 2002	As at date of appointment
A Bennett	137,276	137,276
G Stoker	7,006	7,006

(i) Total allocations as at 31 December 2002 shown above indicate both notional allocations that are subject to performance conditions and awards of shares that have reached the conclusion of the performance period but are subject to a two year retention period.

(ii) A notional allocation of shares was made under this scheme on 2 April 2002 at a market price of 227.0 pence.

The middle market price of Centrica plc ordinary shares on the last day of trading in 2002 (31 December) was 171.0 pence. The range during the year was 239.0 pence (high) and 150.0 pence (low).

Auditors

During the period, Arthur Andersen resigned as auditors of the Company. PricewaterhouseCoopers was appointed in September 2002.

Following the conversion of PricewaterhouseCoopers to a Limited Liability Partnership (LLP), PricewaterhouseCoopers resigned on 31 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors.

By order of the Board

Philip Davies
For and on behalf of
Centrica Secretaries Limited
Date: 31st October 2003

Millstream
Maidenhead Road
Windsor
BERKSHIRE
SL4 5GD

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period 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 period ended 31 December 2002 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.

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

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, and the related notes, which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This opinion has been prepared for and only for the company's members 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 in to whose hands it may come save where expressly agreed by our prior consent in writing.

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

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only of the directors' report.

Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of its loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP 31 October 2003

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

Profit and Loss Account
For the period ended 31 December 2002

	Notes	Period ended 31 December 2002 £000
Turnover	1	463
Operating costs before exceptional items	3	(165)
Exceptional items	4	(11,090)
Total operating costs after exceptional items		(11,255)
Operating loss	3	(10,792)
Net interest payable	5	(4,291)
Loss on ordinary activities before taxation		(15,083)
Tax on ordinary activities	8	5,698
Loss on ordinary activities after taxation and retained loss for the period		(9,385)

There are no recognised gains and losses other than those reported in the profit and loss account which relate to continuing operations.
There is no difference between the retained loss for the period stated above and the historical cost equivalent.

The notes on pages 8 to 16 form part of the financial statements.

Balance Sheet
As at 31 December 2002

	Notes	2002 £000
Fixed assets		
Tangible assets	9	38,903
Current assets		
Debtors – amounts falling due within one year	10	304
- deferred tax asset	10	18,058
		18,362
Creditors: amounts falling due within one year	11	(111)
Net current assets		18,251
Total assets less current liabilities		57,154
Provisions for liabilities and charges	12	(62,039)
Net liabilities		(4,885)
Capital and reserves		
Called up share capital	13	4,500
Profit and loss account	14	(9,385)
Equity shareholder's deficit		(4,885)

The financial statements on pages 6 to 16 were approved by the Board of Directors on 31st October 2003 and were signed on its behalf by:

Alan Bennett
Director

Notes to the financial statements for the period from incorporation to 31 December 2002

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention, and the Companies Act 1985.

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 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.

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)

Principal accounting policies (continued)

Taxation (continued)

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

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

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

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

Turnover

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

Petroleum revenue taxes

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

Notes to the financial statements (continued)

2 Acquisitions

The net assets of the production licence with related assets and liabilities at 15 July 2001 were as follows:

	£000
Tangible fixed assets	33,101
Deferred tax asset	12,255
Provisions	(40,856)
Net Assets	4,500
Satisfied by:	
Issue of 4,500,000 shares in Centrica Offshore UK Limited	4,500

3 Operating loss

(i) Loss on ordinary activities before taxation is stated after charging audit fees payable to the Company auditors for audit services amounting to £7,000. No fees were paid to the auditors of the Company for non-audit services.

(ii) Other operating costs includes charges for the annual production licence fees.

4 Exceptional items

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

5 Net interest payable

	2002
Unwinding of discount on decommissioning provision (note 12)	4,291
	4,291

6 Staff costs

Centrica Offshore UK Limited has no employees and no staff costs.

7 Directors' emoluments

None of the directors received nor were due remuneration during the period from the Company.

8 Taxation on ordinary activities

The tax charge comprises:	2002 £000
Current tax	
UK corporation tax on loss for the period	104
Deferred tax	
Current year movement	(1,717)
Exceptional deferred tax charge	(4,085)
Taxation on loss on ordinary activities	(5,698)

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

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

	2002 £000
Loss on ordinary activities before tax	(15,083)
Loss on ordinary activities multiplied by the standard rate of tax of 30%	(4,525)
Expenses not deductible for taxation purposes	3,327
Utilisation of timing differences	1,287
Supplementary charge applicable to upstream profits	15
Current taxation charge for the period	104

Notes to the financial statements (continued)

9 Tangible fixed assets

	Rights to production of cushion gas £000	Decommissioning £000	Total £000
Cost			
As at 10 July 2001	-	-	-
Acquisition from fellow undertaking	33,101	-	33,101
Change in accounting estimate (note 12)	-	16,892	16,892
As at 31 December 2002	33,101	16,892	49,993
Accumulated depreciation			
As at 10 July 2001	-	-	-
Charge for the period	-	-	-
Impairment	(11,090)	-	(11,090)
As at 31 December 2002	(11,090)	-	(11,090)
Net book value as at 31 December 2002	22,011	16,892	38,903

10 Debtors

	2002 £000
Amount due from group undertaking (falling due within one year)	304
Deferred taxation asset	18,058
	18,362

The deferred taxation asset is attributable to the future 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.

The deferred tax asset is reconciled as follows:

Deferred taxation	2002 £000
As at 10 July 2001	-
Balance recognised on acquisition	12,256
Exceptional uplift for 10% Supplementary charge	4,085
Profit and loss movement	1,717
	18, 058

11 Creditors (amounts falling due within one year)

	2002 £000
Corporation tax	104
Accruals	7
	111

12 Provisions for liabilities and charges

	Decommissioning Costs £000
As at 10 July 2001	-
Decommissioning provision recognised on acquisition of Rough production licence	40,856
Profit and loss account	4,291
Change in accounting estimate	16,892
As at 31 December 2002	62,039

12 Provisions for liabilities and charges (continued)

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.

From 14 November 2002, a change in assumptions regarding discount rates was implemented resulting in an adjustment to the provision for decommissioning. A resulting decommissioning asset of £16,892,000 has been recognised within tangible fixed assets (note 9).

13 Called up share capital

	Number of Shares '000	As at 31 Dec 2002 £000
Ordinary shares of £1 each		
Authorised	50,000	50,000
Allotted, called up and fully paid	4,500	4,500

On 10 July 2001, 4,500,000 £1 ordinary shares were issued at par for cash on incorporation of the Company.

14 Reserves

	Profit & Loss Account £000
Balance at 10 July 2001	-
Loss for the financial period	(9,385)
Balance at 31 December 2002	(9,385)

15 Reconciliation of movements in shareholder's deficit

	£'000
Loss for the financial period	(9,385)
Share issue	4,500
Shareholder deficit as at 31 December 2002	(4,885)

Notes to the financial statements (continued)

16 Related parties

On 28 June 2002, Dynegy Finance Limited ('DFL') became the Company's intermediate parent undertaking. At the same time, DFL secured US$250 million in interim financing which represented an advance on a portion of the proceeds from the expected sale of certain assets owned by Centrica Storage Limited. The interim financing arrangement was secured on the entire share capital of the Company and other DFL group companies and had a repayment period of 12 months, subject to extension.

Under the terms of the finance arrangement, DFL and its subsidiaries undertook to maintain certain profitability and liquidity ratios. Limitations on cash being used by parent undertakings and for non-core business activities also applied.

On 14 November 2002, the Company was sold by Dynegy Europe Limited to Centrica Storage Holdings Limited, a wholly owned subsidiary of Centrica plc. Upon the sale of the Company to Centrica Storage Holdings Limited, all encumbrances over the shares of the Company were removed.

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.

To date some native gas has been produced but because the Rough gas field is operated as a storage facility it is not anticipated that any further substantial production will occur until towards the end of the asset's life. The Rough gas field is expected to continue as a storage facility until 2027 and as at the time of signing the financial statements the production profile for the native gas and associated oil allowances have not been determined. Since both these factors impact upon the amount of Petroleum Revenue Tax payable it is not possible at this time to reliably estimate the total liability and therefore no provision has been made in these financial statements.

18 Ultimate parent company

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

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

Prior to the acquisition of the Company by Centrica Storage Holdings Limited on 14 November 2002, the Company was a 100% subsidiary of Dynegy Inc, a company incorporated in the USA.