

## **Coastal Energy Limited**

**Annual report and Financial Statements  
For the period ended 31 December 2006**

Company no 04421942

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# **Coastal Energy Limited**

## **Annual report and Financial Statements for the period ended 31 December 2006**

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# Coastal Energy Limited

## Directors' Report for the period ended 31 December 2006

The Directors present their report and audited financial statements of Coastal Energy Limited ("the Company") for the period ended 31 December 2006

### Principal Activity, business review and future developments

The principal activity of the Company is to develop integrated gasification combined cycle ("IGCC") technology. During the period the Company commenced development activity after GB Gas Holdings Limited became a shareholder on 7 November 2006. The Company had previously been dormant. It is anticipated that the period of development activity will last for two years after which the Company will decide whether or not to commence construction of a new IGCC power station. The Company's approach to the management of risk is discussed below.

On acquisition, the Company changed its year end from 30 September to 31 December and these financial statements are therefore drawn up for the 15 month period ended 31 December 2006. This change in accounting period has had no financial impact on the Company.

### Results and dividends

The loss for the period is £621,604 (2005: £nil) as set out on page 6. The Directors do not recommend a dividend for the period.

### Political and charitable donations

The Company made no political or charitable donations in the period (2005: £nil).

### 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

The Directors who served during the period and as at the date of this report were as follows:

	Date of Appointment	Date of Resignation
J A G Brown		7 November 2006
D J Hanstock		7 November 2006
P N Whitton		
A Bennett	7 November 2006	
B M Count	7 November 2006	
A R McKeown	7 November 2006	
S M Wills	7 November 2006	

### Risk management

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed. Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly to ensure there is sufficient financial headroom for at least a 12-month period. The Company does not take part in hedging of any kind.

### Principal risks and uncertainties

The following comprises the principal risks and uncertainties identified by the Board in respect of the company and the execution of its strategy. This is not an exhaustive list and only concerns the principal risk and uncertainties identified at the date of approval of the report and accounts. Risks are formally reviewed by the Board and appropriate processes are put in place to monitor and mitigate them. The project is at early stage of development and therefore faces a number of risks which may normally be associated with such projects. These include a number of risks in respect of the design and construction contract for the station, the consents and approvals needed to allow the station to operate and the structure and operation of the Emissions Trading Scheme. Coots Limited, the intended recipient company for carbon dioxide is at early stage of development and therefore faces a number of risks which may normally be associated with such projects. The Company has had commonality of ownership and directorship with Coots Limited thereby giving an appropriate level of strategic alignment with the Company.

# Coastal Energy Limited

## Directors' Report for the period ended 31 December 2006 (continued)

### Related party transactions

Related party transactions are set out in note 15 on page 13

### Creditor payment policy

The Company aims to pay all of its creditors (of which none were trade creditors) promptly within the agreed contract terms

### 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 period. 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.

### Auditors

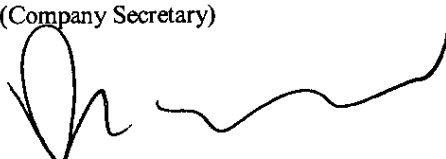
The auditors PricewaterhouseCoopers LLP will be proposed for reappointment in accordance with Section 385 of Companies Act 1985.

### Disclosure of information to auditors

Each of the directors who held office at the date of approval of this Directors' Report confirms 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 the steps that he ought to have taken as a director to make himself aware of any relevant information and to establish that the Company's auditors are aware of that information.

This report was approved by the Board on 18 October 2007

For and on behalf of  
Centrica Secretaries Limited (Company Secretary)  
Registered Office  
Millstream  
Maidenhead Road  
Windsor  
Berkshire  
SL4 5GD



# Coastal Energy Limited

## Independent Auditors' report to the Members of Coastal Energy Limited

We have audited the financial statements of Coastal Energy Limited for the period ended 31 December 2006 which comprises 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 2006 and of its loss for the period 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

*PricewaterhouseCoopers LLP*  
*23 October 2007*

## Coastal Energy Limited

### Profit and loss account for the period ended 31 December 2006

		Period ended 31 December 2006 £	Year ended 30 September 2005 £
	Notes		
Operating costs		(623,055)	-
<b>Operating loss</b>	3	<b>(623,055)</b>	-
Interest receivable and similar income	6	1,451	-
<b>Loss on ordinary activities before taxation</b>		<b>(621,604)</b>	-
Tax on loss on ordinary activities	7	-	-
<b>Retained loss for the year</b>		<b>(621,604)</b>	-

The Company has no recognised gains and losses other than the loss above and therefore no separate statement of total recognised gains and losses has been presented

There is no difference between the loss on ordinary activities before taxation and the retained loss for the period stated and their historical cost equivalents

All activities relate to continuing operations

The notes on pages 8 to 13 form part of these financial statements

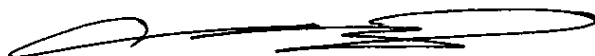
# Coastal Energy Limited

## Balance sheet as at 31 December 2006

	Note	At 31 December 2006 £	At 30 September 2005 £
<b>Current assets</b>			
Other Debtors	8	58,267	-
Cash		515,329	100
		<b>573,596</b>	<b>100</b>
<b>Creditors – amounts falling due within one year</b>	9	(5,100)	-
<b>Net current assets</b>		<b>568,496</b>	<b>100</b>
<b>Net assets</b>		<b>568,496</b>	<b>100</b>
<b>Capital and reserves</b>			
Called-up share capital	10	668	100
Share premium	11	1,189,432	-
Profit and loss account	11	(621,604)	-
<b>Equity shareholder funds</b>	12	<b>568,496</b>	<b>100</b>

The notes on pages 8 to 13 form part of these financial statements

The financial statements on pages 6 to 13 were approved and authorised for issue by the Board of Directors on 18 October 2007 and were signed on its behalf by



Director

ALAN BENNETT

# Coastal Energy Limited

## Notes to the financial statements for the period ended 31 December 2006

### 1. Principal accounting policies

#### Accounting principles

The financial statements have been prepared under the historical cost convention and in accordance with the applicable United Kingdom Accounting Standards and the Companies Act 1985. The Company has adopted FRS21, 'Events after the balance sheet date' and FRS25, 'Financial instruments disclosure and presentation', in these financial statements. There has been no impact on the adoption of these standards in current period or prior year disclosures.

#### Basis of preparation

On acquisition the Company changed its year end from 30 September to 31 December and these financial statements are therefore drawn up for the 15 month period ended 31 December 2006. This change in accounting period has had no financial impact on the Company.

#### Development costs

Development costs relating to the Company's development of integrated gasification combined cycle ("IGCC") technology are capitalised as an intangible asset only if all of the following conditions are met:

- a) Development costs can be reliably measured
- b) The project continues to be technically feasible
- c) There is an intention to complete the project to the stage where the technology can be used by the Company, or sold to a third party, generating future economic benefits

Development costs that do not meet these criteria are recognised in the profit and loss account within cost of sales. Development costs associated with IGCC technology are depreciated on a straight line basis over the asset's estimated useful economic life from the date that development ceases.

#### Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Company reviews the carrying amount of its intangible assets and property, plant and equipment to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate. Fair value is assessed by considering, among other things, whether it can be demonstrated that a market exists for the output of the intangible asset or the intangible asset itself. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

#### Taxation

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

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 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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.



# Coastal Energy Limited

## Notes to the financial statements for the period ended 31 December 2006 (continued)

### 2. Cash flow statement

The Company is an 85% owned subsidiary of GB Gas Holdings Limited 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 FRS1 'Cash flow statements'

### 3. Operating loss

	Period ended 31 December 2006 £	Year ended 30 September 2005 £
<b>Operating loss is stated after charging:</b>		
Auditors' fees - audit	5,100	-

### 4. Directors' emoluments

The Directors received no emoluments during the period (2005 £nil), as they were employed by other Centrica group companies or by Progressive Energy Limited. No recharges of emoluments were made to the Company as it was not possible to accurately apportion them or their services were covered by management fees charged (see note 15). Accordingly no amounts for emoluments are included in the financial statements for these individuals.

### 5. Employee information

The Company has no employees and no staff costs.

### 6. Interest receivable and similar income

	Period ended 31 December 2006 £	Year ended 30 September 2005 £
Interest receivable	1,451	-
	<b>1,451</b>	<b>-</b>

# Coastal Energy Limited

## Notes to the financial statements for the period ended 31 December 2006 (continued)

### 7. Tax on Loss on Ordinary activities

#### (a) Analysis of tax charge for the period

	Period ended 31 December 2006 £	Year ended 30 September 2005 £
<b>The tax charge comprises :</b>		
Current tax		
- United Kingdom corporation tax at 30% (2005 30%)	-	-
Deferred tax		
- Origination and reversal of timing differences	-	-
<b>Total tax on profit/(loss) on ordinary activities</b>	<b>-</b>	<b>-</b>

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

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

	Period ended 31 December 2006 £	Year ended 30 September 2005 £
Loss on ordinary activities before tax	(621,604)	-
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (year ended 31 December 2005 30%)	(186,481)	-
Effects of		
Expenses not deductible for tax purposes	145,500	-
Group relief for nil consideration	40,981	-
<b>Current tax charge for the period</b>	<b>-</b>	<b>-</b>

There is no deferred tax (either recognised or unrecognised) in either the current or prior period

## Coastal Energy Limited

### Notes to the financial statements for the period ended 31 December 2006 (continued)

#### 8. Other Debtors

	At 31 December 2006 £	At 30 September 2005 £
VAT recoverable	58,267	-
	<b>58,267</b>	<b>-</b>

#### 9. Creditors (amounts falling due within one year)

	At 31 December 2006 £	At 30 September 2005 £
Accruals & Deferred Income	5,100	-
	<b>5,100</b>	<b>-</b>

#### 10. Called-up share capital

	At 31 December 2006 £	At 30 September 2005 £
<b>Authorised</b>		
Ordinary shares of £1 each	100,000	100,000
<b>Allotted and fully paid</b>		
Ordinary shares of £1 each	668	100

On 7 November 2006 568 ordinary shares were issued to GB Gas Holdings Limited, a subsidiary of Centrica plc, for cash consideration of £1,190,000. This transaction gave rise to a share premium of £1,189,432 (see note 11).

## Coastal Energy Limited

### Notes to the financial statements for the period ended 31 December 2006 (continued)

#### 11. Reserves

	Share premium account £	Profit and loss account £
1 October 2005	-	-
Issue of share capital (see note 10)	1,189,432	-
Loss for the financial period	-	(621,604)
<b>31 December 2006</b>	<b>1,189,432</b>	<b>(621,604)</b>

#### 12. Reconciliation of movement in shareholders' funds

	At 31 December 2006 £	At 30 September 2005 £
Opening equity shareholder funds	100	100
Issue of share capital (see note 10)	1,190,000	-
Loss for the financial period	(621,604)	-
<b>Closing equity shareholder funds</b>	<b>568,496</b>	<b>100</b>

#### 13. Capital commitments

The Company had no capital commitments at the end of the period (2005 £nil)

#### 14. Operating Lease Commitments

The Company had no operating lease commitments at the end of the period (2005 £nil)

# **Coastal Energy Limited**

## **Notes to the financial statements for the period ended 31 December 2006 (continued)**

### **15. Related party transactions**

The following transactions between the Company and its shareholders, who are regarded as related parties under Financial Reporting Standard No 8, have been included in the financial statements

**(1) Management service fees**

During the period the Company has been charged £132,955 in management service fees for services provided to the Company by Progressive Energy Limited

**(2) Intellectual property rights**

During the period the Company has been charged £200,000 for certain intellectual property rights sold to the Company by Progressive Energy Limited

### **16. Ultimate parent undertaking**

The immediate parent undertakings are GB Gas Holdings Limited and Progressive Energy Limited. The parties own 85% and 15% respectively of the issued ordinary share capital.

The ultimate holding companies of Coastal Energy Limited are Centrica plc and Progressive Energy Limited, both of which are incorporated in England & Wales.

The largest group in which the results of the Company are consolidated is that headed by Centrica plc, which is the only Company to include these financial statements in its consolidated financial statements. The consolidated accounts of this group are available to the public from Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD. The accounts of Progressive Energy Limited are available from 20 Lansdown, Stroud, Gloucestershire GL5 1BG.