

Coastal Energy Limited

Annual report and financial statements
For the year ended 31 December 2008

Company no. 04421942

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Coastal Energy Limited

Annual report and financial statements for the year ended 31 December 2008

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Coastal Energy Limited

Directors' report for the year ended 31 December 2008

The Directors present their report and audited financial statements of Coastal Energy Limited ("the Company") for the year ended 31 December 2008.

Principal activity, business review and future developments

The principal activity of the Company is to plan, develop, construct and operate integrated gasification combined cycle ("IGCC") technology. The original two-year development phase has been extended to take account of changing market conditions and is now expected to be completed in 2009, after which a decision will be made whether to progress to detailed engineering design. The Company's approach to the management of risk is discussed below.

On 15 April 2009 GB Gas Holdings Limited sold its holding in the company to Progressive Energy Limited which is now the ultimate holding company.

Results and dividends

The loss for the year is £1,026,550 (2007: £1,570,449) as set out on page 6. No dividend was paid during the year (2007: £nil).

Financial position

The financial position of the Company is set out in the balance sheet on page 7. The shareholders' deficit at 31 December 2008 was £2,028,503 (2007: £1,001,953).

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 held office during the year and as at the date of this report were as follows:

	Date of appointment	Date of resignation
P N Whitton	22 April 2002	
B M Count	7 November 2006	
S M Wills	7 November 2006	28 July 2008
S J Goodwin	31 October 2007	28 July 2008
D S P Douglas	1 November 2007	15 April 2009
J Spence	28 July 2008	15 April 2009
M J Turner	28 July 2008	15 April 2009
D J Hanstock	15 April 2009	

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 concerns only the principal risk and uncertainties identified at the date of approval of the report and financial statements. 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 an 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 year ended 31 December 2008 (continued)

Political and charitable donations

No political or charitable donations were made during the year (2007: £nil).

Related party transactions

Related party transactions are set out in note 18 on page 13.

Creditor payment policy

The Company aims to pay all of its 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

Nexia Smith & Williamson LLP were appointed during the year and are deemed to be reappointed as auditors.

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 that 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 ...30th July 2009

D J Hanstock

D J Hanstock
Director

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 year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet, the Cash Flow Statement and the related notes. These financial statements were prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and 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).

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 report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. We also 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 the information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008 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.

Nexia Smith & Williamson LLP
Nexia Smith & Williamson LLP
Registered Auditors
Bristol

Date: 30 July 2009

Coastal Energy Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £	2007 £
Operating costs		(866,133)	(1,454,583)
Operating loss	2	(866,133)	(1,454,583)
Interest receivable and similar income	5	123,752	141,101
Interest payable and similar charges	6	(284,169)	(256,967)
Loss on ordinary activities before taxation		(1,026,550)	(1,570,449)
Tax on loss on ordinary activities	7	-	-
Loss for the financial year		(1,026,550)	(1,570,449)

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 loss for the period stated and their historical cost equivalents.

All activities relate to continuing operations.

The notes on pages 9 to 14 form part of these financial statements.

Coastal Energy Limited

Balance sheet as at 31 December 2008

	Note	2008 £	2007 £
Current assets			
Debtors	8	1,907,687	2,688,695
Cash		<u>206,737</u>	<u>221,159</u>
		2,114,424	2,909,854
Creditors – amounts falling due within one year	9	(41,791)	(94,840)
Net current assets		<u>2,072,633</u>	<u>2,815,014</u>
Creditors – amounts falling due after more than one year	10	(4,101,136)	(3,816,967)
Net liabilities		<u>(2,028,503)</u>	<u>(1,001,953)</u>
Capital and reserves			
Called up share capital	13	668	668
Share premium	14	1,189,432	1,189,432
Profit and loss reserve	14	(3,218,603)	(2,192,053)
Equity shareholders' deficit	15	<u>(2,028,503)</u>	<u>(1,001,953)</u>

The notes on pages 9 to 14 form part of these financial statements.

The financial statements on pages 6 to 14 were approved and authorised for issue by the Board of Directors on 30th July 2009 and were signed on its behalf by:

D J Hanstock

D J Hanstock
Director

Coastal Energy Limited

Cash flow statement for the year ended 31 December 2008

	Note	2008 £	2007 £
Cash outflow from operating activities	12	(888,174)	(1,345,271)
Returns on investments and servicing of finance			
Interest received	5	123,752	141,101
Cash outflow before use of liquid resources and financing		<u>(764,422)</u>	<u>(1,204,170)</u>
Management of liquid resources			
Decrease / (increase) in loan to Centrica plc	8	750,000	(2,650,000)
Net cash inflow/(outflow) from management of liquid		<u>750,000</u>	<u>(2,650,000)</u>
Financing			
Loan from GB Gas Holdings Limited	11, 18	-	3,560,000
Net cash inflow from financing		<u>-</u>	<u>3,560,000</u>
Decrease in net cash in the year		<u><u>(14,422)</u></u>	<u><u>(294,170)</u></u>
Reconciliation to net debt			
Net (debt) / cash at start of year		(945,808)	515,329
Decrease in net cash		(14,422)	(294,170)
Movement in liquid resources	8	(750,000)	2,650,000
Movement in borrowings	11, 18	(284,169)	(3,816,967)
Net debt at 31 December		<u><u>(1,994,399)</u></u>	<u><u>(945,808)</u></u>

The notes on pages 9 to 14 form part of these financial statements.

Coastal Energy Limited

Notes to the financial statements for the year ended 31 December 2008

1 Principal accounting policies

Accounting principles

The financial statements have been prepared on the going concern basis, under the historical cost convention and in accordance with the applicable United Kingdom Accounting Standards and the Companies Act 1985. The principal accounting policies are set out below.

Basis of preparation

The financial statements are drawn up for the year ended 31 December 2008.

Development costs

Development costs relating to the Company's development of integrated gasification combined cycle ("IGCC") technology are capitalised as a tangible or an intangible asset, depending on its nature, 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 operating costs. 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.

Loans

Loans receivable are carried at amortised cost using the effective interest rate method less any allowance for estimated impairments. A provision is established for impairments where there is objective evidence that the Company will not be able to collect all amounts due under the original terms of the loan. Interest income, together with losses when the loans are impaired, is recognised in the profit and loss account.

Interest bearing loans and overdrafts are recorded at the proceeds received, net of direct issue costs plus accrued interest less any repayments. Finance charges are recognised in the profit and loss account in the period in which they are incurred using the effective interest method.

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 year ended 31 December 2008 (continued)

2 Operating loss

	2008	2007
	£	£
Operating loss is stated after charging:		
Development costs	861,883	1,449,483
Auditors' remuneration: statutory audit	<u>4,250</u>	<u>5,100</u>

3 Directors' emoluments

The Directors received no emoluments during the year (2007: £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 18). Accordingly no amounts for emoluments are included in the financial statements for these individuals.

4 Employee information

The Company has no employees and no staff costs.

5 Interest receivable and similar income

	2008	2007
	£	£
Interest receivable - bank account	2,281	32,400
Interest receivable - Centrica plc (note 18)	<u>121,471</u>	<u>108,701</u>
	<u>123,752</u>	<u>141,101</u>

6 Interest payable and similar charges

	2008	2007
	£	£
Interest payable (note 18)	<u>(284,169)</u>	<u>(256,967)</u>

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Notes to the financial statements for the year ended 31 December 2008 (continued)

7 Tax on loss on ordinary activities

(a) Analysis of tax charge for the year

	2008 £	2007 £
The tax charge comprises :		
Current tax		
- United Kingdom corporation tax at 28.5% (2007: 30%)	-	-
Deferred tax		
- Origination and reversal of timing differences	-	-
Total tax on loss on ordinary activities	-	-

(b) Factors affecting the tax charge for the year

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:

	2008 £	2007 £
Loss on ordinary activities before tax	(1,026,550)	(1,570,449)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	(292,539)	(471,135)
Effects of:		
Group relief surrendered before payment	292,539	471,135
Current tax charge for the year	-	-

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

The standard rate of corporation tax in the UK changed from 30% to 28% with effect from 1 April 2008. Accordingly the Company's results for this accounting period are taxed at an effective rate of 28.5% and will be taxed at 28% in the future.

8 Debtors

	2008 £	2007 £
VAT recoverable	7,687	38,695
Loan to Centrica plc (note 18)	1,900,000	2,650,000
	1,907,687	2,688,695

9 Creditors - amounts falling due within one year

	2008 £	2007 £
Accruals	41,791	94,840

Coastal Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

10 Creditors - amounts falling due after more than one year

	2008	2007
	£	£
Long term loan (note 11)	<u>4,101,136</u>	<u>3,816,967</u>

11 Loans and other borrowings

	2008	2007
	£	£
Unsecured loan - GB Gas Holdings Limited (note 18)	<u>4,101,136</u>	<u>3,816,967</u>
Maturity of financial liabilities		
In one year or less, or on demand	-	-
In more than one year, but not more than two years	-	-
In more than two years, but not more than five years	-	-
In more than five years	<u>4,101,136</u>	<u>3,816,967</u>
	<u>4,101,136</u>	<u>3,816,967</u>

12 Reconciliation of operating loss to cash outflow from operating activities

	2008	2007
	£	£
Operating loss	(866,133)	(1,454,583)
Decrease in debtors	31,008	19,572
(Decrease) / increase in creditors	(53,049)	89,740
Cash outflow from operating activities	<u>(888,174)</u>	<u>(1,345,271)</u>

13 Called up share capital

	2008	2007
	£	£
Authorised		
Ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
Allotted and fully paid		
Ordinary shares of £1 each	<u>668</u>	<u>668</u>

14 Reserves

	Share premium account	Profit and loss account	Total
	£	£	£
As at 1 January 2008	1,189,432	(2,192,053)	(1,002,621)
Loss for the financial year	-	(1,026,550)	(1,026,550)
As at 31 December 2008	<u>1,189,432</u>	<u>(3,218,603)</u>	<u>(2,029,171)</u>

Coastal Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

15 Reconciliation of movements in equity shareholders' deficit

	2008	2007
	£	£
Opening equity shareholders' (deficit) / funds	(1,001,953)	568,496
Loss for the financial year	(1,026,550)	(1,570,449)
Closing equity shareholders' deficit	<u>(2,028,503)</u>	<u>(1,001,953)</u>

16 Capital commitments

The Company had no capital commitments at the end of the year (2007: £nil)

17 Operating lease commitments

The Company had no operating lease commitments at the end of the year (2007: £nil)

18 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 and intellectual property fees

During the year the Company was charged £660,000 (2007: £900,000) in management services and intellectual property fees for services provided to the Company by Progressive Energy Limited. £nil was outstanding at the year end (31 December 2007: £nil).

(2) Long-term borrowings

In 2007 the Company borrowed £3,560,000 from GB Gas Holdings Limited. The loan accrues interest at LIBOR plus 150 basis points which is added to the outstanding loan balance every 3 months. The interest charged for the year is £284,169 (2007: £256,967), which has been added to the outstanding loan balance at the year end. At the year end £4,101,136 was owed to GB Gas Holdings Limited (2007: £3,816,967) and was repayable by 7 November 2016. Following the year end the terms of the loan were revised and is now repayable on the earlier of 31 December 2018 or certain events.

(3) Loan to Centrica plc

In 2007 the Company appointed Centrica plc as investment managers. Centrica plc invested £2,650,000 in 2007 on behalf of the Company. The funds are repayable to the Company on demand. The loan accrues interest at Bank of England base rate plus 75 basis points. The investment attracted interest income during the year of £121,471 (2007: £108,701). The amount due from Centrica Plc at the year end was £1,900,000 (2007: £2,650,000) and the loan was repaid in full on 12 March 2009.

Coastal Energy Limited

Notes to the financial statements for the year ended 31 December 2008 (continued)

19 Going concern

The Directors have considered the application of the going concern basis of accounting and believe that for the foreseeable future the Company will have adequate resources to meet its liabilities as they fall due. In making this assessment the Directors of the Company have considered the intentions of the directors of Progressive Energy Limited, the ultimate parent undertaking, to provide financial support to the Company in the conduct of its ordinary business operations for a period of 12 months from the date of approval of these financial statements.

20 Ultimate parent undertaking

Until 14 April 2009, the immediate parent undertakings of the Company were GB Gas Holdings Limited and Progressive Energy Limited. The parties owned 85% and 15% respectively of the issued ordinary share capital.

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

The largest group in which the 2008 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.

On 15 April 2009, GB Gas Holdings Limited sold its holding in the Company to Progressive Energy Limited, which is now the ultimate holding company.