Centrica (LW) Limited

Annual report and Financial Statements
For the year ended 31 December 2008

Registered Number: 4155137

Centrica (LW) Limited

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Centrica (LW) Limited

Directors' report for the year ended 31 December 2008

The directors present their report and the audited financial statements of Centrica (LW) Limited, ("the Company"), for the year ended 31 December 2008.

Principal activities
The principal activity of the Company is the construction and operation of offshore wind farms.

Review of Business and Future Developments
The Company has developed a wind farm at Lynn, 5km off Skegness on the Lincolnshire Coast. The wind farm has an export capacity of 90MW. Key construction activity was completed in 2008 with the majority of the 27 turbines commissioned and operational by year end, delivering power to the electricity network. Contractual handover occurred during the first quarter of 2009.

Results and dividends
The loss on ordinary activities after taxation for the year ended 31 December 2008 is £2,918,000 (2007: loss of £8,391,000). The Directors do not recommend the payment of a final dividend (2007: £nil).

Financial Position
The financial position of the Company is presented in the balance sheet on page 6. The shareholders' deficit at 31 December 2008 was £12,744,000 (2007: £9,826,000).

Key performance indicators ("KPIs")
To create the maximum renewable energy the Company monitors the effectiveness and efficiency of the wind farm on a regular basis and ensures a high level of availability. For 2008 the availability was in line with management expectations.

Principal risks and uncertainties
During construction, the principal risks facing the company are cost overruns on the wind farm construction project and failure to complete the project on time. To mitigate against these risks, the directors of the company have put in place mostly fixed price contracts for the construction of the wind farm.

As the wind farm becomes operational, the company's principal risk relates to the availability of the wind farm which is driven by the technical performance of the wind turbines and ancillary equipment and access to the wind farm. Exposure to availability risk is minimised by certain guarantees received from the wind farm's maintenance contractor.

Sales of generated electricity and associated environmental credits are sold at market prices. A principal risk on the rate of return for the company is the exposure to the market price risk, however as sales are made to a related Centrica group company, management has decided not to hedge this risk.

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. Exposure to counterparty credit risk, foreign exchange risk and liquidity risk arises in the normal course of the Company's business. The most significant risks faced by the Company in 2008 related to liquidity risk, foreign currency exchange risk, counterparty credit risk and commodity price risk.

- Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly. Liquidity risk is managed through funding arrangements with other Centrica group companies.
- Derivative financial instruments are entered into to reduce exposure to fluctuations in foreign exchange rates. The Company's policy is to actively manage cash flow risk associated with changes in foreign exchange rates by swapping floating rate foreign exchange flows into fixed-rate foreign exchange flows (refer to notes 1 and 16 for details).
- Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Credit risk is predominantly limited to exposures with other Centrica Group companies.
- In respect of commodity prices, the risk is that market prices for commodities will move adversely thereby potentially reducing expected margins. As sales are made to a related Centrica group company, management has decided not to hedge this risk.

The Company does not take part in hedging of any kind, other than with respect to foreign currency risk.

Directors' report for the year ended 31 December 2008 (continued)

Directors
The following served as Directors during the year and up to the date of signing this report:

	Date of Appointment	Date of Resignation
M J Garstang	13 August 2004	30 June 2008
A Thompson	4 July 2007	
S Wheeler	4 July 2007	
J Spence	31 October 2007	
G S Collinson	13 February 2009	

Political and charitable donations
The Company made charitable donations of £3,356 during the year (2007: £nil). The company did not make any political donations during the year (2007: £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 a director is proved to have acted fraudulently.

Statement of directors' responsibilities
The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors
Each of the directors who held office at the date of approval of this Directors' Report confirm that so far as 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.

Centrica (LW) Limited

Directors' report for the year ended 31 December 2008 (continued)

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 08 May 2009.

FOR AND ON BEHALF OF CENTRICA SECRETARIES LIMITED

For and on behalf of:
Centrica Secretaries Ltd

Registered office:
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Independent Auditors' report to the Members of Centrica (LW) Limited

We have audited the financial statements of Centrica (LW) Limited for the year ended 31 December 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities.

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

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

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

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

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

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

Opinion
In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 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.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

08 May 2009

Centrica (LW) Limited

Profit and loss account for the year ended 31 December 2008

	Note	Year ended 31 December 2008 £'000	Year ended 31 December 2007 £'000
Turnover	3	**10,106**	-
Cost of sales		**(4,604)**	-
Gross Profit		**5,502**	-
Administrative expenses		**(1,267)**	(1,034)
Operating profit/ (loss)	4	**4,235**	(1,034)
Interest payable and similar charges	7	**(790)**	(8)
Profit/ (Loss) on ordinary activities before taxation		**3,445**	(1,042)
Tax on profit/ (loss) on ordinary activities	8	**(6,363)**	(7,349)
Loss for the year	14	**(2,918)**	(8,391)

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 profit/(loss) on ordinary activities before taxation and the loss for the year stated and their historical cost equivalents.

All activities relate to continuing operations.

The notes on pages 7 to 15 form part of these financial statements.

Centrica (LW) Limited

Balance sheet as at 31 December 2008

	Notes	2008 £'000	2007 £'000
Fixed Assets			
Tangible assets	9	**169,005**	95,488
Current assets			
Debtors	10	**30,356**	15
Creditors – amounts falling due within one year	11	**(185,723)**	(93,163)
Net current liabilities		**(155,367)**	(93,148)
Total assets less current liabilities		**13,638**	2,340
Provisions for liabilities and charges	12	**(26,382)**	(12,166)
Net liabilities		**(12,744)**	(9,826)
Capital and reserves			
Called-up share capital	13	**-**	-
Profit and loss reserve	14	**(12,744)**	(9,826)
Equity shareholders' deficit	15	**(12,744)**	(9,826)

The notes on pages 7 to 15 form part of these financial statements.

The financial statements on pages 5 to 15 were approved and authorised for issue by the Board of Directors on 08 May 2009 and were signed on its behalf by:

J Spence
Director

Centrica (LW) Limited

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

1 Principal accounting policies

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

Turnover
Turnover relates to the sale of generated power and the associated Renewables Obligation Certificates (ROCs) and Levy Exemption Certificates (LECs) to a fellow Group undertaking. Turnover is recognised to the extent that it is virtually certain that the economic benefits will flow to the Company and the revenue can be reliably measured. Turnover is recognised on the basis of power supplied during the period except for the ROC Recycling Benefit which is recognised once the existence of the benefit is confirmed or when it is received.

Tangible fixed assets
Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation. Depreciation is charged on all fixed assets, other than freehold land, at rates calculated to write-off the cost of each asset on a straight line basis over its expected useful life as follows for these asset classes:

- Plant and machinery:	20 years
- Decommissioning asset:	20 years

Assets in the course of construction represent the cost of purchasing, commissioning, constructing and installing tangible fixed assets ahead of their productive use. When the asset is brought into use, the associated cost will be transferred to plant and machinery, and the asset will begin to be depreciated on a straight line basis over its useful economic life.

Impairment
At each balance sheet date, the Company reviews the carrying amounts of its fixed assets to determine whether there is any indication that those assets have suffered an impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment. 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 that reflects current market assessments of the time value of money and the risks specific to the asset. 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.

Foreign Currency
The financial statements of the Company are presented in sterling, which is the Company's functional currency. Transactions in foreign currencies are initially recorded at either the functional currency rate ruling at the date of the transaction or the rate that they have been hedged at using forward contracts (see 'Financial Instruments' below). Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the balance sheet date.

Financial Instruments
The company has entered into forward contracts to economically hedge its foreign exchange exposure on milestone payments made to foreign suppliers. Changes in the derivatives' fair value are not recognised (note 16).

1 Principal accounting policies (continued)

Government Grants and Deferred income

Government grants received as a contribution towards wind-farm expenditure are initially recognised as deferred income. This deferred income is released to the profit and loss account on a straight line basis over the expected useful economic life of the related asset, commencing when the entire asset is fully operational.

Interest payable on government grants is recognised on an accruals basis to the extent that it is probable that the grant will be repaid.

Taxation

Current tax, being UK corporation 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. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are 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 substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Abandonment provision and Decommissioning asset

Provision is made for the net present value of the estimated cost of decommissioning the wind farm at the end of its useful life, based on price levels and technology at the balance sheet date.

Changes in these estimates and changes to the discount rates are dealt with prospectively.

When this provision gives access to future economic benefits, a decommissioning asset is recognised and included within tangible fixed assets. The decommissioning asset is amortised on a straight-line basis over the useful life of the wind farm, from the date that the asset is brought into use.

The unwinding of the discount on the provision is included in the Profit and Loss Account within interest payable.

2 Cash Flow Statements and related party disclosures

The Company is a wholly-owned subsidiary of Centrica Renewable 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 Financial Reporting Standard No. 1 "Cash Flow Statements". The Company is also exempt under the terms of Financial Reporting Standard No. 8 "Related Party Disclosures" from disclosure of transactions with other companies that are part of the Centrica plc group.

3 Segmental reporting

The Company's activities consist solely of developing and operating wind farms and occurs wholly within the United Kingdom.

4 Operating profit/ (loss)

	2008	2007
	£'000	£'000
Operating profit/ (loss) is stated after charging:		
Depreciation	**3,365**	-

Auditors' remuneration was £10,000 (2007: £10,000) and relates to fees for the audit of the UK GAAP statutory accounts of Centrica (LW) 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 (LW) Limited. Of the auditors' remuneration £nil (2007: £10,000) was borne by Centrica plc. Prior year audit fees have been restated to reflect the inclusion of an element of the Centrica Group fee.

5 Directors' emoluments

The directors received no emoluments during the year (2007 : £nil), as they were employed by other Centrica group companies. No recharges of emoluments are made to the Company as it is not possible to accurately apportion them and accordingly no amounts are included in the financial statements for these individuals. All of the directors who served during the year are members of the ultimate parent company's defined benefit pension scheme.

6 Employee information

The Company has no employees and no staff costs (2007: £nil). Any costs relating to employees are borne by other Centrica group companies.

7 Interest payable

	2008	2007
	£'000	£'000
Unwinding of discount in abandonment provision	**197**	8
Interest on capital grant	**593**	-
	790	8

8 Tax on profit/ (loss) on ordinary activities

	2008 £'000	2007 £'000
(a) Analysis of tax charge for the year		
The tax credit/(charge) comprises:		
Current tax:		
United Kingdom corporation tax at 28.5% (2007: 30%)	-	-
Total current tax	-	-
Deferred tax		
Effect of change to deferred tax rate	123	539
Origination and reversal of timing differences	(7,020)	(6,106)
Adjustments in respect of prior years	534	(1,782)
Total tax on profit/ (loss) on ordinary activities	(6,363)	(7,349)

(b) Factors affecting the tax charge for the year

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit/ (loss) before tax is as follows:

	2008 £'000	2007 £'000
Profit/ (loss) on ordinary activities before tax	3,445	(1,042)
Tax on profit/ (loss) on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	982	(313)
Effects of:		
Depreciation on Non Qualifying assets	14	-
Capital allowances in excess of depreciation	(7,160)	(6,108)
Timing differences	139	2
Group relief for nil consideration	7,734	7,389
UK:UK transfer pricing adjustment	(1,709)	(970)
Tax charge for the year	-	-

9 Tangible assets

	Payments on account and assets under construction £'000	Plant and Machinery £'000	Decommissioning asset £'000	Total £'000
Cost				
As at 1 January 2008	90,874	-	4,614	95,488
Additions	69,226	-	7,656	76,882
Transfers	(106,305)	106,305	-	-
As at 31 December 2008	**53,795**	**106,305**	**12,270**	**172,370**
Accumulated depreciation				
As at 1 January 2008	-	-	-	-
Charge for the year	-	3,072	293	3,365
At 31 December 2008	**-**	**3,072**	**293**	**3,365**
Net book value				
At 31 December 2008	**53,795**	**103,233**	**11,977**	**169,005**
At 31 December 2007	90,874	-	4,614	95,488

10 Debtors

	2008 £'000	2007 £'000
Prepayments	**28**	15
Amounts owed by group undertakings	**30,328**	-
	30,356	15

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

11 Creditors - amounts falling due within one year

	2008 £'000	2007 £'000
Accruals	**6,681**	13,140
Deferred income	**6,500**	6,500
Amounts owed to group undertakings	**172,542**	73,523
	185,723	93,163

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The Lynn windfarm was eligible to receive up to £10m under the Offshore Windfarm Capital Grants scheme. Of this, £6.5m has been drawn down and recognised as deferred income. Additionally generation from the Lynn windfarm has been accredited to the Renewable Obligation Certificate (ROC) regime and was initially entitled to ROCs at a rate of 1.0ROC / MWh.

Subsequently the Government introduced a banded ROC regime with a rate of 1.5ROCs/MWh for offshore wind. This regime became effective on 1 April 2009. To receive the full benefit of the new regime, the grant was repaid on 1 April 2009 together with accrued interest of £0.6 million.

Centrica (LW) Limited

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

12 Provisions for liabilities and charges

	Deferred taxation £'000	Abandonment provision £'000	Total £'000
As at 1 January 2008	7,544	4,622	12,166
Additions	-	7,656	7,656
Unwind of discounting	-	197	197
Change to UK DT rate	(123)	-	(123)
Profit and loss charge	6,486	-	6,486
As at 31 December 2008	13,907	12,475	26,382

Deferred taxation

	As at 1 January 2008 £'000	Profit and loss charge/(credit) £'000	As at 31 December 2008 £'000
Deferred corporation tax			
- accelerated capital allowances	7,546	6,500	**14,046**
- other timing differences	(2)	(137)	**(139)**
	7,544	6,363	13,907

Deferred corporation tax provision at 28% (2007: 28%) is analysed as follows:

	Provided		Unprovided	
	At 31 Dec 08 £'000	At 31 Dec 07 £'000	**At 31 Dec 08 £'000**	At 31 Dec 07 £'000
Deferred corporation tax				
- accelerated capital allowances	**14,046**	7,546	-	-
- other timing differences	**(139)**	(2)	-	-
	13,907	7,544	-	-

Abandonment provision
The abandonment provision represents the future expected costs of decommissioning the windfarm at the end of its useful economic life, discounted to its present value. The payment date of the total expected future decommissioning costs is uncertain but is currently anticipated to be 2028. The above provision relates solely to works performed on the site as at the balance sheet date. In determining the provision the cash flows have been discounted on a pre-tax basis using an annual real interest rate of 1.6% (2007: 2.2%). The assumed rate of inflation is 2.5% (2007: 2.5%).

Centrica (LW) Limited

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

13 Called-up share capital

	2008	2007
	£	£
Authorised		
1,000 ordinary shares of £1 each	**1,000**	1,000
Allotted and fully paid		
1 ordinary share of £1	**1**	1

14 Reserves

	Profit and loss reserve	Total
	£'000	**£'000**
At 1 January 2008	(9,826)	(9,826)
Loss for the year	(2,918)	(2,918)
At 31 December 2008	**(12,744)**	**(12,744)**

15 Reconciliation of movements in shareholders' deficit

	2008	2007
	£'000	£'000
Loss for the year	**(2,918)**	(8,391)
Opening shareholders' deficit at 1 January	**(9,826)**	(1,435)
Closing shareholders' deficit at 31 December	**(12,744)**	(9,826)

16 Financial Instruments

In accordance with Statutory Instrument 04/2947 of the Companies Act 1985, the fair values of the Company's financial.instruments are analysed below.

	2008	2007
	£'000	£'000
Derivative financial instruments		
Foreign exchange swaps	**502**	3,616

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

17 Commitments

The following commitments, for which no provision has been made, have been entered into by the Company at the end of the year:

	2008	2007
	£'000	£'000
a) Capital Commitments	2,358	65,389

18 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 Centrica plc, 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.

19 Ultimate parent undertaking

Since 1 October 2008, the immediate parent undertaking is Centrica Renewable Holdings Limited, which is registered in England and Wales. Until 30 September 2008, the immediate parent undertaking was Centrica Renewable Energy Limited, which is registered in England and Wales.

The ultimate parent undertaking and controlling party is Centrica plc, a company registered in England and Wales, which is the parent company of the smallest and largest group to consolidate their financial statements. Copies of Centrica plc consolidated financial statements can be obtained from the Company Secretary at Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.