Centrica (LW) Limited

Annual report and Financial Statements
For the year ended 31 December 2006

Registered Number: 4155137

Centrica (LW) Limited

Centrica (LW) Limited

Directors' report for the year ended 31 December 2006

The directors present their report and the audited financial statements of Centrica (LW) Limited, ("the Company"), for the year ended 31st December 2006

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 holds the licence to develop and operate a 90MW wind farm at Lynn Contracts to build the windfarm have been awarded during 2006, and the project is expected to be completed by 2008

Results and dividends
The loss on ordinary activities after taxation for the year ended 31 December 2006 is £275,000 (2005 loss of £610,000) The directors do not recommend the payment of a dividend (2005 £nil).

Principal risks and uncertainties
The management of the business and the execution of the Company's strategy are subject to a number of risks Further discussion of these risks and uncertainties, in the context of the group as a whole, is provided on pages 21-23 of the group's annual report which does not form part of this report

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 in post during the year and as at the date of this report were as follows

	Date of Appointment	Date of Resignation
S R Clark	27 April 2004	4 July 2007
M J Garstang	13 August 2004	
G Lane	27 April 2004	4 July 2007
A Bennett	28 April 2005	

On 4 July 2007 Alan Thompson and Susan Wheeler were appointed as Directors of the Company

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 risk facing the Company relates to credit risk Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits Where applicable, exposures are backed by advanced payment bonds 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 Note 1 for details) 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, other than with respect to foreign currency risk (refer above)

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

Centrica (LW) Limited

Directors' report for the year ended 31 December 2006 (continued)

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

Post balance sheet events
In February 2007, the Company signed a supply contract with Siemens AG for the construction of the turbines for the windfarm

Auditors
In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office

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

This report was approved by the Board 18 October 2007

For and on behalf of
Centrica Secretaries Ltd
Registered office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Centrica (LW) Limited

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 2006 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 2006 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
23 October 2007

Centrica (LW) Limited

Profit and loss account for the year ended 31 December 2006

	Note	Year ended 31 December 2006 £'000	Year ended 31 December 2005 £'000
Administration expenses		(396)	(610)
Loss on ordinary activities before taxation	4	(396)	(610)
Tax on loss on ordinary activities	7	121	-
Retained loss for the year	13	(275)	(610)

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 year stated and their historical cost equivalents

All activities relate to continuing operations

The notes on pages 6 to 12 form part of these financial statements

Centrica (LW) Limited

Balance sheet as at 31 December 2006

	Notes	2006 £'000	2005 £'000
Fixed Assets			
Tangible assets	8	19,180	6,326
Current assets			
Debtors	9	2,845	200
		2,845	200
Creditors – amounts falling due within one year	10	(22,965)	(7,370)
Net current liabilities		(20,120)	(7,170)
Total assets less current liabilities		(940)	(844)
Provisions for liabilities and charges	11	(495)	(316)
Net liabilities		(1,435)	(1,160)
Capital and reserves			
Called-up share capital	12	-	-
Profit and loss reserve	13	(1,435)	(1,160)
Equity shareholder funds	14	(1,435)	(1,160)

The notes on pages 6 to 12 form part of these financial statements

The financial statements on pages 4 to 12 were approved and authorised for issue by the Board of Directors on 16 October 2007 and were signed on its behalf by

Alan Bennett
Director

Centrica (LW) Limited

Notes to the financial statements for the year ended 31 December 2006

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

Tangible fixed assets
Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation

Assets in the course of construction represent the cost of purchasing, commissioning, constructing and installing tangible fixed assets ahead of their productive use At the point of completion of the asset, the associated cost will be transferred to plant and machinery, at which point the asset will begin to be depreciated on astraight 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

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

Centrica (LW) Limited

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

1 Principal accounting policies (continued)

Option fees
Option fees are capitalised at inception and then amortised on a straight line basis over the life of the option or, if earlier, the date at which the option is expected to be exercised

Decommissioning provision
Provision is made for the net present value of the estimated cost of decommissioning the windfarm 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 facility The unwinding of the discount on the provision is included in the Profit and Loss Account within interest expense

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 15)

2 Cash Flow Statements and related party disclosures

The Company is a wholly-owned subsidiary of Centrica Renewable Energy 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 windfarms and take place wholly within the United Kingdom

4 Loss on ordinary activities before taxation

	2006 £'000	2005 £'000
Loss on ordinary activities before taxation is stated after charging:		
Auditors' fees – statutory audit services	-	-

The audit fees of £6,000 during the year (2005 £6,000) were borne by another group company and not recharged

Centrica (LW) Limited

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

5 Directors' emoluments

The directors received no emoluments during the year (2005 £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

7 Tax on loss on ordinary activities

	2006	2005
	£'000	£'000
The tax charge comprises :		
United Kingdom corporation tax at 30% (2005 30%) based on the loss for the period		
Current	-	-
Deferred - origination and reversal of timing differences	121	-
Total tax on loss on ordinary activities	121	-

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

	2006	2005
	£'000	£'000
Loss on ordinary activities before tax	(396)	(610)
Tax on loss on ordinary activities at standard UK corporation tax rate of 30%	(119)	(183)
Effects of		
Losses carried forward	121	-
Group relief not paid for	186	226
UK UK transfer pricing adjustment	(188)	(43)
	-	-

8 Tangible assets

	Assets under construction £'000	Decomissioning asset £'000	Total £'000
Cost			
As at 1 January 2006	6,326	-	6,326
Additions	12,554	300	12,854
As at 31 December 2006	18,880	300	19,180
Net book value			
At 31 December 2006	18,880	300	19,180
At 31 December 2005	6,326	-	6,326

9 Debtors

	2006 £'000	2005 £'000
Prepayments	2,645	-
Other debtors	200	200
	2,845	200

10 Creditors - amounts falling due within one year

	2006 £'000	2005 £'000
Amounts owed to group undertakings	22,965	7,370

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

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

11 Provisions for liabilities and charges

	Deferred taxation £'000	Abandonment provision £'000	Total £'000
As at 1 January 2006	316	-	316
Profit and loss credit	(121)	-	(121)
Abandonment provision	-	300	300
As at 31 December 2006	195	300	495

Deferred tax is provided at 30% (2005 30%) Full provision has been made for deferred taxation arising from accelerated capital allowances

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and have been enacted in the 2007 Finance Act or are expected to be enacted in the 2008 Finance Act The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these financial statements The effect of the changes enacted in the Finance Act 2007 would be to reduce the deferred tax liability provided at 31 December 2006 by £13,000 and would increase profits for the year by the same amount This decrease in deferred tax is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008 The other changes to be enacted would have no further effects on the deferred tax provided at 31 December 2006

The abandonment provision represents the expected costs of decomissioning the windfarm at the end of its useful ecomomic life (currently anticipated to be 2028) The above provision relates solely to works performed on the site as at the balance sheet date

12 Called-up share capital

	2006 £	2005 £
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Allotted and fully paid		
1 Ordinary share of £1	1	1

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

13 Reserves

	Profit and loss reserve £'000	Total £'000
At 1 January 2006	(1,160)	(1,160)
Loss for the year	(275)	(275)
At 31 December 2006	(1,435)	(1,435)

14 Reconciliation of movements in shareholder funds

	2006 £'000	2005 £'000
Loss for the year	(275)	(610)
Opening shareholder funds	(1,160)	(550)
Closing shareholder funds	(1,435)	(1,160)

15 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

	2006 £'000	2005 £'000
Derivative financial instruments		
Foreign exchange swaps	(125)	-

16 Capital Commitments

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

	2006 £'000	2005 £'000
Assets under construction	49,848	-

17 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

18 Ultimate parent undertaking

The immediate parent undertaking is Centrica Renewable Energy Limited, a company 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 only Company to include these financial statements in its consolidated 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