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Coots Limited

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

Company no. 05949882

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Coots Limited

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

Contents **Page**

Coots Limited

Directors' report for the year ended 31 December 2008

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

Principal activity, business review and future developments
The principal activity of the Company is the planning, development and operation of carbon capture and storage infrastructure.

The Company's approach to the management of risk is discussed below.

The financial statements are drawn up for the year ended 31 December 2008. The 2007 comparatives are for the 15-month period ended 31 December 2007.

On 15 April 2009, the Company's majority parent undertaking, GB Gas Holdings Limited, sold its holding in the Company to the other parent undertaking, Progressive Energy Limited.

Results and dividends
The loss for the year is £1,252,564 (15-month period ended 31 December 2007: £974,591) as set out on page 6. No dividend was paid during the year (15-month period ended 31 December 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 £1,626,705 (2007: £374,141).

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

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

Political and charitable donations
No charitable or political donations were made during the year (15 months to 31 December 2007: £nil).

Related party transactions
Related party transactions are set out in note 18 on page 14.

Coots Limited

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

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 risks 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 an 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 of the pipeline and ancillary equipment, the identification and development of suitable storage sites and risks associated with development of the regulations for offshore transportation and storage.

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.

Disclosure of information to auditors
In accordance with Section 234ZA(2), 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.

Auditors
Nexia Smith & Williamson LLP were appointed as auditors during the year and are deemed to be reappointed as auditors in accordance with Section 487 of the Companies Act 2006.

This report was approved by the Board on 30th July 2009

D. J. Hanstock
D J Hanstock
Director

Independent auditors' report to the members of Coots Limited

We have audited the financial statements of Coots 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 have been 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

Coots Limited

Profit and loss account for the year ended 31 December 2008

	Note	2008 £	15 months ended 31 Dec 2007 £
Operating costs		(1,149,175)	(921,452)
Operating loss	2	(1,149,175)	(921,452)
Interest receivable and similar income	5	37,362	76,823
Interest payable and similar charges	6	(140,751)	(129,962)
Loss on ordinary activities before taxation		(1,252,564)	(974,591)
Tax on loss on ordinary activities	7	-	-
Loss for the financial period		(1,252,564)	(974,591)

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 15 form part of these financial statements.

Coots Limited

Balance sheet as at 31 December 2008

	Note	2008 £	2007 £
Current assets			
Debtors	8	268,753	1,546,201
Cash at bank and in hand		206,266	48,140
		475,019	1,594,341
Creditors – amounts falling due within one year	9	(31,011)	(38,520)
Net current assets		444,008	1,555,821
Creditors – amounts falling due after more than one year	10	(2,070,713)	(1,929,962)
Net liabilities		(1,626,705)	(374,141)
Capital and reserves			
Called up share capital	13	1,000	1,000
Share premium	14	599,450	599,450
Profit and loss reserve	14	(2,227,155)	(974,591)
Equity shareholders' deficit	15	(1,626,705)	(374,141)

The notes on pages 9 to 15 form part of these financial statements.

The financial statements on pages 6 to 15 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

Coots Limited

Cash flow statement for the year ended 31 December 2008

	Note	2008 £	15 months ended 31 Dec 2007 £
Cash outflow from operating activities	12	(1,129,236)	(929,133)
Returns on investments and servicing of finance			
Interest received	5	37,362	76,823
Cash outflow before use of liquid resources and financing		(1,091,874)	(852,310)
Management of liquid resources			
Decrease / (increase) in loan to Centrica plc	8	1,250,000	(1,500,000)
Net cash inflow / (outflow) from management of liquid resources		1,250,000	(1,500,000)
Financing			
Share capital issued		-	600,450
Decrease in shareholder loans		-	1,800,000
Net cash inflow from financing		-	2,400,450
Increase in net cash in the period		158,126	48,140

Reconciliation to net debt

	Note	2008 £	15 months ended 31 Dec 2007 £
Net debt at start of period		(381,822)	-
Increase in net cash		158,126	48,140
Movement in liquid resources	8	(1,250,000)	1,500,000
Movement in borrowings	11	(140,751)	(1,929,962)
Net debt at 31 December		(1,614,447)	(381,822)

The notes on pages 9 to 15 form part of these financial statements.

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. The 2007 comparatives are for the 15-month period ended 31 December 2007.

Development costs

Development costs relating to the Company's development of the carbon capture and storage infrastructure 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 the development of the pipeline system 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, are 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.

2 Operating loss

	2008	15 months ended 31 Dec 2007
	£	£
Operating loss is stated after charging:		
Development costs	**1,145,325**	915,202
Auditors' fees - audit	**3,850**	6,250

3 Directors' emoluments

The Directors received no emoluments during the period 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 had no employees and no staff costs.

5 Interest receivable and similar income

	2008	15 months ended 31 Dec 2007
	£	£
Interest receivable - bank account	**2,011**	19,700
Interest receivable - Centrica plc (note 18)	**35,351**	57,123
	37,362	76,823

6 Interest payable and similar charges

	2008	15 months ended 31 Dec 2007
	£	£
Interest payable (note 18)	**140,751**	129,962

7 Tax on loss on ordinary activities

(a) Analysis of tax charge for the period

	2008	15 months ended 31 Dec 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	-	-

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.

(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:

	2008	15 months ended 31 Dec 2007
	£	£
Loss on ordinary activities before tax	**(1,252,564)**	(974,591)
Tax on loss on ordinary activities at standard UK corporation tax rate of 28.5% (2007: 30%)	**(356,981)**	(292,377)
Effects of:		
Expenses not deductible for tax purposes	-	131,570
Unrelieved tax losses and other deductions arising in the period	**196,355**	-
Group relief for nil consideration	**160,626**	160,807
Current tax charge for the period	-	-

(c) Factors affecting future tax charges

At the year end there were trading losses of approximately £689,000 (2007: £1,290,000) available for carry forward for offset against future trading profits resulting in an unprovided deferred tax asset of £192,895 at 31 December 2008.

Coots Limited

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

8 Debtors

	2008	2007
	£	£
VAT recoverable	18,753	46,201
Loan to Centrica plc (note 18)	250,000	1,500,000
	268,753	1,546,201

9 Creditors - amounts falling due within one year

	2008	2007
	£	£
Accruals	31,011	38,520

10 Creditors - amounts falling due after more than one year

	2008	2007
	£	£
Long term loan (note 11)	2,070,713	1,929,962

11 Loans and other borrowings

	2008	2007
	£	£
Unsecured loan - GB Gas Holdings Limited (note 18)	2,070,713	1,929,962
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	2,070,713	1,929,962
	2,070,713	1,929,962

12 Reconciliation of operating loss to cash outflow from operating activities

	2008	15 months ended 31 Dec 2007
	£	£
Operating loss	(1,149,175)	(921,452)
Decrease / (increase) in debtors	27,448	(46,201)
(Decrease) / increase in creditors	(7,509)	38,520
Cash outflow from operating activities	(1,129,236)	(929,133)

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

13 Called up share capital

	2008	2007
	£	£
Authorised		
Ordinary shares of £1 each	**100,000**	100,000
Allotted and fully paid		
Ordinary shares of £1 each	**1,000**	1,000

On 7 November 2006, 1000 ordinary shares were issued to GB Gas Holdings Limited, a subsidiary of Centrica plc, and Progressive Energy Limited for cash consideration of £600,450. This transaction gave rise to a share premium of £599,450 (see note 14).

14 Reserves

	Share premium account	Profit & loss account	Total
	£	£	£
As at 1 January 2008	599,450	(974,591)	(375,141)
Loss for the financial period	-	(1,252,564)	(1,252,564)
As at 31 December 2008	**599,450**	**(2,227,155)**	**(1,627,705)**

15 Reconciliation of movements in equity shareholders' deficit

	2008	2007
	£	£
Opening equity shareholders' deficit	**(374,141)**	-
Issue of share capital (note 13)	-	600,450
Loss for the financial period	**(1,252,564)**	(974,591)
Closing equity shareholders' deficit	(1,626,705)	(374,141)

16 Capital commitments

The Company had no capital commitments at the end of the year (31 December 2007: £nil).

17 Operating lease commitments

The Company had no operating lease commitments at the end of the year (31 December 2007: £nil).

Coots Limited

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

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 £439,500 (15 months to 31 December 2007: £482,045) for management service 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 May 2007, the Company borrowed £1,800,000 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 period is £140,751 (15 months to 31 December 2007: £129,962), which was added to the outstanding loan balance. At the year end the loan balance was £2,070,713 (31 December 2007: £1,929,962) 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 lent £1,500,000 to Centrica plc. During 2008, Centrica plc repaid £1,250,000. 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 £35,351 (15 months to 31 December 2007: £57,123). £250,000 was outstanding at the year end (31 December 2007: £1,500,000) and was repaid in full on 12 March 2009.

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 were GB Gas Holdings Limited and Progressive Energy Limited. The parties owned 55% and 45% respectively of the issued ordinary share capital.

The ultimate holding companies were Centrica plc and Progressive Energy Limited, both of which are incorporated in England and 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 5 GD. 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.