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**British Gas Trading Limited**

Report and Financial Statements  
for the year ended 31 December 2005

*Registered No: 3078711*



# **BRITISH GAS TRADING LIMITED**

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The Directors present their Report and the audited Financial Statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2005.

### **Principal activities**

The principal activity of the Company is the provision of gas and electricity to homes and businesses in the United Kingdom.

### **Business review**

The recent substantial rise in wholesale prices clearly presented a massive challenge for all energy retailers and in particular for British Gas, as the largest supplier of both gas and electricity to the residential marketplace. The result was the unfortunate but inevitable round of tariff increases across the industry. Our innovative product propositions and the marketing and selling efforts of the team minimised the impact on our customer base, with customer losses in the second half of the year substantially lower than the first half. Despite the unprecedented rise in commodity costs we chose not to pass through the full impact immediately to our customers. We managed to offset some of the commodity impact on the business by fundamentally reviewing and streamlining all non-customer-facing activities and at the end of the year we achieved a major goal in the transformation of British Gas with the first large-scale migration of 1.25 million customer accounts to our new billing system. We also laid out a cost reduction plan which will take us through 2007 and beyond with the aim of becoming the lowest cost-to-serve provider. Included in the accounts are restructuring costs of £62.2 million provided for to cover the cost of staff reductions as well as the acceleration of elements of the British Gas transformation programme.

The operating loss is further increased as a result of an adjustment to prices on a contract to procure gas from the Company's wholly owned subsidiary, Hydrocarbon Resources Limited (HRL). This pricing adjustment reflects results from a historical re-negotiation of the contract such that the Company pays a price to HRL in excess of current market rates. It increased the cost of sales by a total of £318.1 million (2004: £299.8 million). Because this premium is not recovered from our customers, this adjustment also led to an increase in the sales contract loss and renegotiation provisions as shown in note 16 of these financial statements.

### **Financial results**

The results of the Company are set out on page 8.

During the year the Company made an operating loss on ordinary activities of £566.5 million for the year (2004 restated: £221.0 million loss) and a retained loss for the year of £548.8 million (2004 restated: profit of £741.2 million).

### **Dividends**

No dividends were paid for the year ended 31 December 2005 (2004: £1.4 billion).

### **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 commodity price risk, counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the Directors. An energy management team manages energy market price and volumetric risks.

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk arises as a result of contracted or forecast retail sales of gas and electricity not being fully matched by procurement contracts with equivalent volumes, time periods and pricing. The risk is primarily that market prices for commodities will move adversely between the times that sales prices are fixed or tariffs are set and the times at which the purchase costs are fixed, thereby potentially reducing expected margins.

**Risk management continued**

The Company's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customer energy requirements.

Certain of the procurement contracts and sales contracts constitute derivative financial instruments. The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery. Refer to note 22 for details.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. Exposure to credit risk arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance. In the case of business customers credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship. For residential customers, creditworthiness is ascertained normally before commencing to trade by reviewing an appropriate mix of internal and external information. An ageing of receivables is monitored and used to manage the exposure to credit risk.

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.

**Directors**

The following served as directors during the year:

Sir R A Gardner

M S Clare

P K Bentley

J S Ulrich (appointed 11 April 2005)

On 30 June 2006, Sir Roy Gardner resigned as a director of the company and on 30 September 2006, Mark Clare resigned as a director of the company.

At no time during the year ended 31 December 2005, did any Director have any interests in the shares of the Company (2004: nil) or any other company within the Centrica Group, except for interests in, and options over, the shares and interests of the ultimate parent company, Centrica plc.

Details of the interests of P K Bentley, M S Clare, J S Ulrich and Sir Roy Gardner in the shares, and options over shares, in the ultimate parent company, Centrica plc, are shown in the 2005 Centrica Annual Report and Accounts.

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and associated undertakings is a party and in which any Director is or was materially interested.

**Related party transactions**

The Company has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other Centrica Group companies, except for the transactions noted below and any other related party disclosures made in the Centrica Plc Accounts, there have been no other disclosable related party transactions during the year (2004: £nil). Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on an arm length basis.

**Creditor payment policy**

It is the Company's policy to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas and electricity supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of payment in advance with the supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The number of days' purchases outstanding as at 31 December 2005 was 33 days (2004: 43 days).

**Employment policies**

During 2005, the Company employed an average of 13,617 people, all employed in the United Kingdom (2004: 13,678). The disclosures surrounding the 'Employee Costs' and the 'Average number of employees during the year' (see note 5) relate to Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The Directors believe that the disclosures given are the fairest representation of the staff costs for the business.

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with disabilities, carers and lone parents. To the extent possible, people with disabilities are offered the same employment training, career development and promotion opportunities as other employees. The Centrica Group, to which British Gas Trading Limited belongs, is actively working with a number of organisations in the diversity arena including the Employers' Forum on Disability, the Employers' Forum on Age, Race for Opportunity, Carers UK, Opportunity Now, Working Families and Jobcentre Plus.

The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way.

Employees are regularly updated on performance against the Company's strategy. There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views. The Centrica Group, to which British Gas Trading Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including Executive Directors.

**Charitable and political donations**

Charitable donations during the year amounted to £844,876 (2004: £1,000,769). There were no political donations made during the year (2004: 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.

**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.

This report was approved by the Board on 27 October 2006.

for and on behalf of  
Centrica Secretaries Limited

**Company Secretary**

27 October 2006

Registered Office:  
Millstream  
Maidenhead Road  
Windsor  
Berkshire SL4 5GD

**Statement of Directors' Responsibilities**

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Company law requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss 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 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.

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.

**Independent Auditor's Report to the Shareholder of British Gas Trading Limited**

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We have audited the financial statements of British Gas Trading Limited for the year ended 31 December 2005, which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses 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 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). 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 if, in our opinion, the Directors' Report is not consistent with the financial statements, if 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 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**

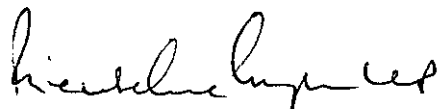
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



*PricewaterhouseCoopers LLP*

*Chartered Accountants and Registered Auditors*

Embankment Place

London

WC2N 6RH

27 October 2006

**British Gas Trading Limited****Profit and Loss Account****Year ended 31 December**

	Notes	2005 £000	2004 Restated £000
<b>Turnover</b>	3	<b>8,960,002</b>	8,640,960
Cost of sales		<u>(8,364,444)</u>	<u>(7,536,747)</u>
<b>Gross profit</b>		<b>595,558</b>	1,104,213
Administrative expenses	4	<u>(1,162,063)</u>	<u>(1,325,187)</u>
<b>Operating loss</b>		<b>(566,505)</b>	(220,974)
Income from other fixed asset investments	10	-	2,400,000
Interest receivable	6	<b>18,459</b>	20,412
Amounts written off investments	10	-	(38,185)
Interest payable	6	<u>(14,417)</u>	<u>(15,376)</u>
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(562,463)</b>	2,145,877
Tax credit/(charge) on (loss)/profit on ordinary activities	7	<u>13,674</u>	<u>(4,724)</u>
<b>(Loss)/profit on ordinary activities after taxation for the year</b>		<b>(548,789)</b>	2,141,153
Dividends		-	(1,400,000)
<b>Retained (loss)/profit for the year</b>	19	<u><b>(548,789)</b></u>	<u>741,153</u>

There are no differences between the loss on ordinary activities before taxation and the loss for the year stated above and their historical cost equivalents.

All activities relate to continuing activities.

The notes on pages 11 to 30 form part of these Financial Statements.



**British Gas Trading Limited**

**Balance Sheet**

**Year ended 31 December**

	Notes	2005 £000	2004 Restated £000
<b>Fixed assets</b>			
Intangible assets (goodwill)	8	75,061	45,253
Tangible assets	9	447,368	409,953
Investments	10	1,247,162	1,247,162
		<u>1,769,591</u>	<u>1,702,368</u>
<b>Current assets</b>			
Stocks	11	71,047	72,999
Debtors (amounts falling due within one year)	12	1,989,255	1,543,533
Debtors (amounts falling due after more than one year)	12	67,885	77,825
Cash at bank and in hand		7,193	7,856
		<u>2,135,380</u>	<u>1,702,213</u>
<b>Creditors (amounts falling due within one year)</b>			
Borrowings	14	(766)	(6,091)
Other creditors	15	(2,509,300)	(1,547,516)
		<u>(2,510,066)</u>	<u>(1,553,607)</u>
<b>Net current (liabilities)/assets</b>		<u>(374,686)</u>	<u>148,606</u>
<b>Total assets less current liabilities</b>		<u>1,394,905</u>	<u>1,850,974</u>
<b>Creditors (amounts falling due after more than one year)</b>			
Accruals and deferred income	15	(4,766)	(4,835)
		<u>(4,766)</u>	<u>(4,835)</u>
<b>Provisions for liabilities and charges</b>	16	<u>(263,073)</u>	<u>(176,484)</u>
<b>Net assets</b>		<u>1,127,066</u>	<u>1,669,655</u>
<b>Capital and reserves – equity interests</b>			
Called up share capital	17	800,000	800,000
Share premium account	19	447,162	447,162
Profit and loss account	19	(120,096)	422,493
<b>Equity shareholder's funds</b>	20	<u>1,127,066</u>	<u>1,669,655</u>

The Financial Statements on pages 8 to 30 were approved and authorised for issue by the Board of Directors on 27 October 2006 and were signed on its behalf by:

Director  
27 October 2006



The notes on pages 11 to 30 form part of these Financial Statements.

**British Gas Trading Limited****Statement of Total Recognised Gains and Losses**  
**Year ended 31 December**

	<b>Notes</b>	<b>2005</b>	<b>2004</b>
		<b>£000</b>	<b>Restated £000</b>
<b>Retained (loss)/profit for the year</b>		<b>(548,789)</b>	<b>741,153</b>
<b>Total recognised (losses)/gains relating to the year</b>		<b>(548,789)</b>	<b>741,153</b>
Prior year adjustments			
Adoption of FRS 17 Retirement Benefits	2	<b>(25,378)</b>	
Adoption of FRS 20 Share-based payment	2	<b>8,694</b>	
Deferred tax on adoption of FRS 17 and FRS 20	2	<b>5,005</b>	
Total prior year adjustments		<b>(11,679)</b>	
Total recognised gains and losses since last financial statements		<b>(560,468)</b>	

**1. Principal accounting policies**

**Accounting principles**

The Financial Statements have been prepared under the historical cost convention in accordance with United Kingdom Accounting Standards and the Companies Act 1985.

The following accounting policies have been applied consistently in relation to the Company's Financial Statements.

The Company has adopted FRS 20 "Share-based payment" in the year. The adoption of this standard represents a change in accounting policy, and accordingly the comparative figures have been restated where required. Details of the effect of the change in policy are given in note 2.

The Company has also adopted FRS 17 "Retirement Benefits" in the year. The adoption of this standard represents a change in accounting policy, and accordingly the comparative figures have been restated where required. Details of the effect of the change in policy are given in note 2.

In addition, the Company has adopted FRS 21 "Events after the balance sheet date", although the adoption of FRS 21 has not had a material impact on the Company's result or net assets.

**Basis of preparation**

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within FRS 1, Cash Flow Statements, from presenting a cash flow statement; within FRS 2, Accounting for Subsidiary Undertakings, from consolidating its subsidiary undertakings and incorporating the results of its share of joint ventures and associates; and within FRS 8, Related Party Disclosures, from disclosing transactions with other group companies.

**Turnover**

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales-related taxes. Turnover is recognised on the basis of energy supplied during the period. Turnover includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread). Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors. All turnover arose in the United Kingdom.

**Cost of sales**

Cost of sales includes the cost of gas and electricity purchased, related transportation costs and bought in materials and services.

**Employee share schemes**

As a subsidiary of Centrica plc, the Company participates in a number of the Group's employee share schemes under which it makes equity-settled share based payments in Centrica plc shares to certain employees. These are detailed in the Annual Report and Accounts of Centrica plc.

Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight line basis together with the corresponding increase in equity over the vesting period, based on the Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based conditions.

**1. Principal accounting policies continued**

**Employee share schemes continued**

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance.
Sharesave	Black-Scholes.
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise.

The Company has taken advantage of the transitional provisions of FRS 20 "Share-based payment" in respect of equity-settled awards and has applied FRS 20 only to equity-settled awards granted after 7 November 2002, that were unvested at 1 January 2005.

**Foreign currencies**

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences are recognised through the profit and loss account.

**Intangible fixed assets**

Goodwill arising on the acquisition of a business is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment. On the acquisition of a business, fair values are attributed to the assets and liabilities acquired. Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period, which represents the Directors' estimate of its useful economic life. Goodwill is being amortised over periods ranging from 15 to 20 years. If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on disposal.

**Tangible fixed assets**

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

In the case of investments in Customer Relationship Management (CRM) systems and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads. Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress. Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

Tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values, of individual assets over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Plant	5 to 20 years
Equipment and vehicles	3 to 10 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term.

**Leases**

Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

**1. Principal accounting policies continued**

**Asset impairments**

Intangible and tangible fixed assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable. When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher. If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount.

**Investments**

Other fixed asset investments are included in the balance sheet at cost, less any provisions for impairment as necessary.

**Stocks**

Stocks are valued at the lower of cost or estimated net realisable value.

**Take-or-pay contracts**

Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and are included within debtors, as they generate future economic benefits.

**Pensions**

The Company has adopted FRS 17 Retirement Benefits in the year.

The Company's employees participate in a number of the Group's defined benefit pension schemes. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the profit and loss account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Group as a whole.

**Long term sales contracts**

Provision is made for the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts. The provision is based on the difference between the contracted sales price and the least cost of gas available on a stacked, contract by contract basis.

**Taxation**

Current tax, including 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 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 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.

**1. Principal accounting policies continued**

**Financial instruments**

Certain financial instruments are used by the Company to manage financial risks. Where financial instruments are used as hedges against financial risks, they are matched at their inception to the specific exposures they are designed to reduce. Gains and losses are released to the profit and loss account in the same period as the income and costs of the hedged transactions. Outstanding contracts used to hedge against trading items which themselves will be accounted for in the profits and losses of a future period, are not recognised, or are deferred when they mature and are carried forward to match against corresponding gains and losses when they occur.

**2. Changes in accounting policy**

The Company has adopted the following standards with effect from 1 January 2005: FRS17, Retirement Benefits, FRS20, Share-based payment, and FRS 21 (IAS 10) Events after the balance sheet date.

The Company previously accounted for retirement benefits in accordance with SSAP 24. The charge to the Profit and Loss Account comprised the cost of providing retirement pensions and other benefits, spread over the period benefiting from the employees' service. The Company recognised a provision or prepayment which represented the difference between charges to the Profit and Loss Account and contributions paid to the pension schemes. Under FRS 17, the Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis. Therefore the Company's charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period. The implementation of FRS 17 has resulted in a reduction to the Company's previously reported net assets of £25.4 million at 31 December 2004, and a reduction of £44.3 million to the Company's previously reported profits for the year then ended and an increase of £18.9 million to reserves at 1 January 2004. A deferred tax asset of £7.6 million has also been recognised.

The Company previously accounted for share-based payments in accordance with UITF 38 and UITF 17 (revised 2003). These abstracts required the profit and loss charge to be determined as the intrinsic value of the options granted. Under FRS 20, equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of instruments that will satisfy non-market vesting conditions. The implementation of FRS 20 has resulted in an increase of the Company's previously reported net assets of £15.6 million at 31 December 2004, an increase to the Company's previously reported profits of £8.7 million, and a credit to the share option reserve of £6.9 million for the year then ended. A deferred tax liability of £2.6 million has also been recognised.

**3. Segmental analysis**

Included within turnover is £8,960 million (2004: £8,641 million) relating to energy supply, the principal activity of the business. All energy supply arose in the United Kingdom. This segment had an operating loss of £566.5 million in 2005 (2004 restated: £221 million loss) and net assets of £1,127.1 million at 31 December 2005 (2004 restated: £1,669.7 million net assets).

**4. Administrative expenses**

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>The Company's administrative expenses, which have been charged to the profit and loss account, include:</b>		
Amortisation of goodwill	3,841	3,798
Depreciation:		
Owned assets	59,239	69,673
Leased assets	-	-
Operating lease rentals:		
Plant and machinery	-	-
Other	4,515	6,437
Exceptional items	62,167	33,719
Auditors' remuneration:		
Statutory audit	716	493
Other	412	487
	<u>          </u>	<u>          </u>

**Exceptional items**

In 2005 the Company continued with its business restructuring in line with the announced acceleration of the British Gas transformation programme. The exceptional costs comprise £62.2 million (2004: £33.7million) resulting from staff reductions (£24.2 million of wages and salaries, £18.5 million of pensions costs and £19.5 million of property costs (2004: £15.0 million of wages and salaries and £18.7 million of pensions costs)).

**5. Directors and employees****Directors' emoluments**

Sir Roy Gardner, Phillip Bentley and Jake Ulrich received no emoluments in respect of their services to the Company and their emoluments for services to the Group are disclosed in the report and accounts for Centrica Plc. The emoluments of Mark Clare, as the highest and only director paid for services to the Company, are fully disclosed in the Centrica plc 2005 Annual Report and in aggregate were £868,000 (2004: £870,000).

Retirement benefits are accruing to the directors under a defined benefit pension scheme. The accrued pension of the highest paid director, Mark Clare, as at 31 December 2005 was £138,100 (2004: £123,100).

	2005	2004
	£000	Restated £000
<b>Employee costs</b>		
Wages and salaries	285,783	270,543
Social security costs	24,965	23,338
Other pension and retirement benefits costs	28,693	70,062
Executive share option scheme	913	1,018
Long term incentive scheme	2,295	(1,778)
Share incentive plan	1,460	843
Employee sharesave scheme	2,992	(3,465)
	<b>347,101</b>	<b>360,561</b>

Wages and salaries exclude redundancy costs of £24.2 million (2004: £15 million) and Other pension and retirement benefit costs exclude the additional pension costs of £18.5 million (2004: £18.7 million), which have been classified as exceptional items.

The Other pension and retirement benefit costs of £25.8 million for 2004 has been restated to £70.1 million on adoption of FRS 17. Executive share option scheme costs for 2004 has been restated from £nil to £1.0 million, Long term incentive scheme costs for 2004 has been restated from £5.0 million to £1.8 million credit and Employee sharesave scheme costs for 2004 has been restated from £0.6 million credit to £3.5 million credit on adoption of FRS 20. Details of the restatement of the 2004 employee costs can be seen in note 2.

**Average number of employees during the year**

The average number of employees, all employed in the United Kingdom, during the year was 13,617 compared to 13,678 for 2004. All employees were administrative and sales staff.

The disclosures surrounding the 'Staff costs during the year' and the 'Average number of employees during the year' include all Centrica Group employees that work in the British Gas Trading Limited business. Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies. The directors believe that the disclosures given are the fairest representation of number of people working in the business.



## 6. Net interest

	2005 £000	2004 £000
<b>Interest receivable</b>		
Notional interest arising on discounted items	6,563	5,653
Other interest receivable	11,896	14,759
	<u>18,459</u>	<u>20,412</u>
<b>Interest payable</b>		
Interest payable on bank loans and overdrafts	(2,022)	(2,487)
Interest payable to group companies	(6,486)	(2,424)
Notional interest arising on discounted items	(5,909)	(10,465)
	<u>(14,417)</u>	<u>(15,376)</u>
Net interest receivable	<u>4,042</u>	<u>5,036</u>

## 7. Tax on (loss)/profit on ordinary activities

	2005 £000	2004 Restated £000
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	(14,558)	26,545
Adjustments in respect of prior years	884	(21,821)
	<u>(13,674)</u>	<u>4,724</u>
Total tax (credit)/charge on (loss)/profit on ordinary activities	<u>(13,674)</u>	<u>4,724</u>

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 before tax is as follows:

	2005 £000	2004 Restated £000
(Loss)/profit on ordinary activities before tax	<u>(562,463)</u>	<u>2,145,877</u>
Tax (credit)/charge on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2004: 30%)	<u>(168,739)</u>	<u>643,763</u>
Effects of:		
Expenses not deductible for tax purposes	97,108	102,782
Dividend income not taxable	-	(720,000)
Utilisation of timing differences including losses	27,236	(15,744)
Capital allowances in excess of depreciation	(12,678)	(10,801)
UK:UK transfer pricing	(3,751)	-
Group relief for nil consideration	60,824	-
	<u>-</u>	<u>-</u>

The profit on ordinary activities before tax for 2004 has been restated from £2,181.5 million to £2,145.9 million on adoption of FRS 17 and FRS 20 (see note 2).

**8. Intangible fixed assets (goodwill)**

	<b>Goodwill £000</b>
<b>Cost</b>	
At 1 January 2005	56,962
Additions	33,649
<b>At 31 December 2005</b>	<b>90,611</b>
<b>Amortisation</b>	
At 1 January 2005	(11,709)
Charge for the year	(3,841)
<b>At 31 December 2005</b>	<b>(15,550)</b>
<b>Net book value</b>	
<b>At 31 December 2005</b>	<b>75,061</b>
At 31 December 2004	45,253

The intangible assets comprise goodwill arising on the acquisition of the trade and assets of Enron Direct Limited in 2001. The £57 million of goodwill is being amortised over 15 years.

On 1 December 2005 the Company acquired 13,000 gas customer sites from Total Fina Elf Limited for consideration of £4.2 million. These contracts are mainly with the industrial and public sector. At the time of acquisition the supply contracts had a negative mark to market value. To off-set this, Total Gas and Power Limited will support the supply contracts with a back to back Gas Supply Agreement (the 'GSA'). The onerous contract provision arising on this acquisition was valued at £27.4 million, offset by the value of the GSA of £22.9 million. The £8.7 million goodwill is being amortised over 20 years, being the useful economic life.

On 31 December 2005 the Company acquired the trade and assets of Electricity Direct (UK) Limited for £33.4 million. A deferred tax asset of £8.5 million was recognised. The £24.9 million goodwill is being amortised over 15 years.

**9. Tangible fixed assets**

	<b>Plant, equipment and vehicles £000</b>
<b>Cost</b>	
At 1 January 2005	640,721
Additions	96,903
Disposals	(13,414)
<b>At 31 December 2005</b>	<b>724,210</b>
<b>Accumulated depreciation</b>	
At 1 January 2005	(230,768)
Charge for the year	(59,239)
Disposals	13,165
<b>At 31 December 2005</b>	<b>(276,842)</b>
<b>Net book value</b>	
<b>At 31 December 2005</b>	<b>447,368</b>
At 31 December 2004	409,953

**10. Fixed asset investments**

	<b>Shares in subsidiary £000</b>
<b>Cost and net book value</b>	
At 31 December 2004	1,247,162
<b>At 31 December 2005</b>	<b><u>1,247,162</u></b>

**Interests in subsidiaries**

As at 31 December 2005 the Company had interests in the issued share capital of the subsidiary undertakings listed below:

<b>Subsidiary undertaking</b>	<b>Business</b>	<b>Country of incorporation</b>	<b>Proportion of nominal value of shares held</b>
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%
Electricity Direct (UK) Limited	Electricity Supply	United Kingdom	100%

In 2004 the total carrying value of the investment in Electricity Direct (UK) Limited of £38.2m was written off.

**Income from fixed asset investments**

No dividends were received during the year (2004: £2.4 billion received from Hydrocarbon Resources Limited).

**11. Stocks**

	<b>2005 £000</b>	<b>2004 £000</b>
Gas in storage	<b><u>71,047</u></b>	<b><u>72,999</u></b>

## Notes to the Financial Statements continued

## 12. Debtors

	2005 Within one year	2005 After more than one year	2004 Within one year	2004 After more than one year
	£000	£000	£000	Restated £000
Trade debtors	586,177	-	525,674	-
Accrued energy income	1,163,723	-	798,792	-
Amounts owed by group undertakings	4,493	14,389	23,365	22,677
Deferred corporation tax	3,570	53,496	3,900	30,953
Other debtors	188,839	-	182,630	24,195
Prepayments and other accrued income	42,453	-	9,172	-
	<u>1,989,255</u>	<u>67,885</u>	<u>1,543,533</u>	<u>77,825</u>

The Amounts owed by group undertakings relates to amounts owed by Centrica Resources Limited, of which £4.5m is repayable within one year. This debtor is unsecured and non-interest bearing.

A £25.4 million pension prepayment in 2004 shown as due after more than one year has been restated to £nil on the adoption of FRS 17 (see note 2).

## 13. Deferred taxation

Deferred tax assets comprise:	Amounts recognised		Amounts unrecognised	
	2005	2004 Restated	2005	2004
	£000	£000	£000	£000
Deferred corporation tax				
- accelerated capital allowances	(39,145)	(26,781)	-	-
- other timing differences	96,211	61,634	40	82
	<u>57,066</u>	<u>34,853</u>	<u>40</u>	<u>82</u>

As required by FRS 19, deferred tax assets are only recognised when there is persuasive and reliable evidence that the assets can be realised. Detailed operating plans covering two years from the Balance Sheet date are used for deferred tax asset recognition purposes. Potential deferred tax asset utilisation falling outside that planning horizon is not currently recognised in the Balance Sheet. As encouraged by FRS 19, deferred tax asset recognition is regularly re-assessed.

The deferred tax asset of £29.9 million has been restated to £34.9 million on the adoption of FRS 17 and FRS 20 (see note 2).

## 14. Borrowings

	2005 Within one year	2005 After more than one year	2004 Within one year	2004 After more than one year
	£000	£000	£000	£000
Bank loans and overdrafts	<u>766</u>	<u>-</u>	<u>6,091</u>	<u>-</u>

The Company's bank overdraft at the year end represented items in the process of being cleared by the bank. Centrica plc's treasury department pools funds daily and via intercompany accounts resets the Company's balance at the bank to £nil. All interest charges payable on the bank overdraft during the period are borne by the parent undertaking.

## Notes to the Financial Statements continued

## 15. Other creditors

	2005 Within one year £000	2005 After more than one year £000	2004 Within one year £000	2004 After more than one year £000
Trade creditors	873,420	-	513,916	-
Amounts owed to group undertakings	1,015,296	-	365,222	-
Taxation and social security	23,876	-	9,071	-
Other creditors	379,168	-	434,908	-
Accruals and deferred income:				
Transportation	34,427	-	18,155	-
Other accruals and deferred income	183,113	4,766	206,244	4,835
	<u>2,509,300</u>	<u>4,766</u>	<u>1,547,516</u>	<u>4,835</u>

Included within Amounts owed to group undertakings is £948 million that is due to Centrica plc. The amount payable is unsecured, interest free and technically repayable on demand. However, Centrica plc will provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future. In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company.

Also included within Amounts owed to group undertakings is £63.8 million that is due to Hydrocarbons Resources Limited and £3.5m that is due to Centrica Storage Limited. Both amounts are due within one year and are unsecured. The amount owed to Hydrocarbons Resources Limited has interest payable on settlement at the Bank of England base rate plus 0.5%. The amount owed to Centrica Storage Limited is interest free.

## 16. Provisions for liabilities and charges

	As at 1 Jan Restated 2005 £000	Acquisitions £000	Profit and loss charge/ (credit) £000	Notional Interest £000	Utilised £000	As at 31 Dec 2005 £000
Sales contract loss and renegotiation provisions	146,041	4,529	44,018	5,909	-	200,497
Restructuring costs	28,973	-	62,167	-	(30,432)	60,708
Other	1,470	-	1,069	-	(671)	1,868
	<u>176,484</u>	<u>4,529</u>	<u>107,254</u>	<u>5,909</u>	<u>(31,103)</u>	<u>263,073</u>

## Sales contract loss and renegotiation provisions

The sales contract loss provision represented the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts based on the difference between contracted sales prices and the least cost of gas available on a stacked, contract by contract basis. Included in the sales contract loss provision is the acquisition of volume hedged gas contracts from Total Fina Elf on 1 December 2005 (see Business review on page 3).

In previous years, the Company renegotiated certain long-term take-or-pay contracts, which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008 based on the reserves in a group of third party fields. The amount arising in the year includes £6 million of notional interest (2004: £10 million)

## Restructuring costs

The provision represents business restructuring costs and mainly relates to staff redundancies. The profit and loss charge for the year of £62.2 million related to exceptional redundancy costs (see note 4).

## Notes to the Financial Statements continued

**16. Provisions for liabilities and charges continued****Other**

Included within other is the provision for employer's National Insurance charges expected to arise at exercise dates on employee share schemes.

Other provisions have been restated from £17.0 million to £1.5 million on adoption of FRS 20 (see note 2).

**17. Called up share capital**

	2005 £000	2004 £000
<b>Authorised</b>		
1,800,000,100 ordinary shares of £1 each	<u>1,800,000</u>	<u>1,800,000</u>
<b>Called up, allotted and fully paid</b>		
800,000,100 ordinary shares of £1 each	<u>800,000</u>	<u>800,000</u>

**18. Share-based payments**

Centrica plc operates a number of employee share schemes including the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave and the Share Incentive Plan (SIP). These are described in the Directors' Report on page 24 of the Centrica plc Annual Report and Accounts 2005, and in the Remuneration Report on pages 30 to 31 of the Centrica plc Annual Report and Accounts 2005. There were no other share-based payment transactions during the period.

**ESOS**

Under the ESOS the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant. The contractual life of an option is ten years. Awards under the ESOS are generally reserved for employees at senior management level and above and 27 employees are currently eligible to participate. Options granted under the ESOS will become exercisable on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by more than 18 percentage points. The number of options becoming exercisable is reduced on a sliding scale if EPS growth exceeds RPI growth by between nine and 18 percentage points. Options granted up to March 2004 also permit retesting of EPS growth annually for a further two years. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. As allowed by FRS 20, only options granted since 7 November 2002 which were unvested at 1 January 2005 have been valued. The fair values and the related assumptions used in the calculations are as follows:

Grant date	23 Sept 2005	1 April 2005	1 Sept 2004	18 March 2004	1 Sept 2003	24 March 2003
Share price at grant date	£2.46	£2.28	£2.46	£2.28	£1.80	£1.47
Exercise price	£2.51	£2.29	£2.45	£2.24	£1.78	£1.47
Number of options originally granted	291,235	8,339,818	195,795	8,815,399	635,599	13,319,276
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	30%	30%	27%	27%	35%	35%
Contractual option life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Expected life	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs
Risk-free rate	4.80%	4.70%	5.00%	5.01%	4.45%	4.44%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	25%	25%	25%	25%	25%	25%
Fair value per option	£0.50	£0.49	£0.47	£0.45	£0.51	£0.41

## Notes to the Financial Statements continued

- (i) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of option movements is as follows:

	2005		2004	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at start of period	7,393,884	1.97	6,710,883	1.88
Granted	2,863,162	2.30	2,060,938	2.24
Exercised	(43,324)	2.40	(1,065,612)	1.91
Forfeited	13,395	2.24	(312,325)	1.93
Outstanding at the end of the period	10,227,117	2.06	7,393,884	1.97
Exercisable at the end of the period	2,415,618	2.31	1,036,238	2.40

For options outstanding at the end of the period, the range of exercise prices and average remaining life was as follows:

2005				2004			
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years
£1.40 – £1.49	£1.47	2,634,235	7.3	£1.40 – £1.49	£1.47	2,634,235	7.3
£1.70 – £1.79	£1.78	253,164	7.7	£1.70 – £1.79	£1.78	253,164	7.7
£2.20 – £2.29	£2.26	6,237,439	8.2	£2.20 – £2.29	£2.24	3,470,247	7.4
£2.40 – £2.49	£2.40	992,914	5.4	£2.40 – £2.49	£2.40	1,036,238	5.4
£2.50 – £2.59	£2.51	109,365	9.8				
	£2.06	10,227,117	7.7		£1.97	7,393,884	7.1

For options exercised during the period the weighted average share price was £2.49 (2004: £2.49).

## LTIS

Under the LTIS, allocations of shares in Centrica plc are made to employees of the Group. Awards under the LTIS are generally reserved for employees at senior management level and above and 106 employees are currently eligible to participate. The number of shares that are to be released to participants is calculated subject to the Company's total shareholder return (TSR) during the three years following the grant date, compared to the TSR of other shares in the FTSE 100 Index over the same period. The number of shares released is reduced on a sliding scale if Centrica's TSR is ranked between 50th and 25th. For allocations granted from October 2001 onwards shares are released to participants immediately following the end of the period in which TSR performance is assessed. For awards granted prior to that date allocations are subject to a further two years retention. Release of shares is subject to continued employment within the Group at the date of release. Allocations were valued using the Black-Scholes option pricing model. Performance conditions were included in the fair value calculations, through the use of a Monte Carlo simulation model. As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been valued. The fair values and the related assumptions used in the calculations are as follows:

## Notes to the Financial Statements continued

Grant date	23 September 2005	1 April 2005	1 September 2004	1 April 2004	1 September 2003	1 April 2003
Share price at grant date	£2.46	£2.28	£2.46	£2.30	£1.80	£1.47
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	456,421	8,408,130	310,460	9,765,341	665,696	13,573,547
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (ii)	30%	30%	27%	27%	35%	35%
Contractual life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	4.80%	4.68%	5.00%	5.04%	4.31%	3.88%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	(iii)	(iii)	30%	30%	30%	30%
Fair value per share allocated	£1.20	£1.03	£1.25	£1.17	£0.99	£0.89

- (ii) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the contract life, which is a fixed-term of three years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is shown below:

	2005	2004
	Number	Number
Outstanding at start of period	7,324,273	8,282,287
Granted	2,892,029	2,380,586
Exercised	(2,107,113)	(2,587,298)
Forfeited – performance related	(298,848)	(399,248)
Forfeited – non-performance related	(226,744)	(352,054)
Outstanding at the end of the period	7,583,597	7,324,273
Exercisable at the end of the period	-	1,123,470

- (iii) From 2005, the cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the FTSE 100 over the period from March 2000.

For shares released during the period the weighted average share price was £2.40 (2004: £2.45).



## SHARESAVE

Under Sharesave the Board may grant options over shares in Centrica plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been valued. The fair values and the related assumptions used in the calculations are as follows:

Grant date	6 April 2005	6 April 2005	1 April 2004	1 April 2004	8 April 2003	8 April 2003
Share price at grant date	£2.36	£2.36	£2.30	£2.30	£1.59	£1.59
Exercise price	£1.88	£1.88	£1.83	£1.83	£1.07	£1.07
Number of options originally granted	4,329,658	5,791,571	3,854,639	7,407,793	37,280,748	34,151,197
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs
Expected volatility (iv)	30%	30%	27%	27%	35%	35%
Contractual option life	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs
Risk-free rate	4.65%	4.64%	5.13%	5.04%	3.90%	3.90%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	40%	25%	40%	25%	40%	25%
Fair value per option	£0.68	£0.64	£0.61	£0.58	£0.64	£0.60

- (iv) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the contract life, which is a fixed-term of three years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is as follows:

	2005		2004	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at start of period	20,362,823	£1.23	21,759,961	£1.18
Granted	2,691,866	£1.88	2,763,078	£1.83
Exercised	(1,637,804)	£1.51	(899,047)	£1.85
Lapsed	(650,251)	£1.54	(1,804,249)	£1.30
Transfers between group entities	-	-	(1,456,920)	£1.27
Outstanding at the end of the period	20,766,634	£1.28	20,362,823	£1.23
Exercisable at the end of the period	1,069	£1.78	2,331	£1.91

## Notes to the Financial Statements continued

For options outstanding at the end of the period, the range of exercise prices and the average remaining life was as follows:

2005				2004			
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years
£1.00 – £1.09	£1.07	15,231,124	1.9	£1.00 – £1.09	£1.07	16,122,202	2.9
£1.70 – £1.79	£1.78	563,403	1.9	£1.70 – £1.79	£1.78	1,489,429	1.7
£1.80 – £1.89	£1.86	4,596,648	3.1	£1.80 – £1.89	£1.83	2,327,823	3.5
£1.90 – £1.99	£1.91	375,459	0.9	£1.90 – £1.99	£1.91	423,369	1.9
	£1.28	20,766,634	2.2		£1.23	20,362,823	2.9

For options exercised during the period the weighted average share price was £2.33 (2004: £2.35).

## SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. The Company then grants one 'matching share' for every two purchased, up to a maximum of 20 matching shares per employee per month. Both partnership shares and matching shares are held in a trust initially. Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date. Matching shares vest unconditionally for employees after being held for three years in the trust. Vesting of matching shares is also subject to continued employment within the Group. Matching shares are valued at the market price at the grant date. The average fair value of these awards during the year was £2.36 (2004: £2.74). The number of shares held in trust at 31 December 2005 was 1,582,929 (2004: 1,097,623).

**19. Reconciliation of movements in reserves**

	Share Premium £000	Profit and Loss £000
31 December 2004 as previously stated	447,162	427,308
Prior year adjustment (note 2)	-	(4,815)
<b>31 December 2004 as restated</b>	<b>447,162</b>	<b>422,493</b>
Loss for the financial year	-	(548,789)
Employee share option schemes:		
Value of services provided	-	6,200
<b>31 December 2005</b>	<b>447,162</b>	<b>(120,096)</b>

The profit and loss account can be further analysed  
as follows:

	Share Option Reserves £000	Other £000	Profit and Loss £000
31 December 2004 as previously stated	-	427,308	427,308
Prior year adjustment (note 2)	6,864	(11,679)	(4,815)
<b>31 December 2004 as restated</b>	<b>6,864</b>	<b>415,629</b>	<b>422,493</b>
Loss for the financial year	-	(548,789)	(548,789)
Employee share option schemes:			
Value of services provided	6,200	-	6,200
<b>31 December 2005</b>	<b>13,064</b>	<b>(133,160)</b>	<b>(120,096)</b>

**20. Reconciliation of movements in equity shareholder's funds**

	2005 £000	2004 £000
1 January	1,669,655	908,381
Adoption of FRS 17 (note 2) (net of tax)	-	13,257
<b>1 January as restated</b>	<b>1,669,655</b>	<b>921,638</b>
(Loss)/profit for the financial year	(548,789)	741,153
Employee share option schemes:		
Value of services provided	6,200	6,864
<b>31 December</b>	<b>1,127,066</b>	<b>1,669,655</b>

**21. Commitments and contingencies**

	<b>2005</b>	2004
	<b>£000</b>	£000
<b>a) Capital commitments</b>		
Contracted for but not provided	<u><b>31,260</b></u>	<u>36,815</u>
	<b>2005</b>	2004
	<b>£000</b>	£000
<b>b) Lease commitments</b>		
At 31 December non-cancellable operating lease commitments of the Company for the following year were:		
Expiring:		
- Between one and five years	<u><b>4,901</b></u>	<u>4,515</u>
	<u><b>4,901</b></u>	<u>4,515</u>

There were no operating leases relating to land and buildings (2004: £nil).

**c) Pensions**

The majority of the Company's UK employees as at 31 December 2005 were members of two of the three main schemes in the Centrica plc Group; the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These are defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS 17, these schemes have been treated as defined contribution schemes. The aggregate contributions to the schemes during the year were £28,693,299 (2004: £70,061,531). The amount outstanding at the balance sheet date was nil (2004: £3,556). The latest actuarial valuation of the schemes, updated for the purposes of FRS 17 show a total deficit of £604 million (£421 million net of deferred tax) (2004: £516 million (£365 million net of deferred tax)). These pension schemes are included on a consolidated basis within the group accounts of Centrica plc as prepared under IFRS.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was as at 31 March 2004.

**d) Guarantees and indemnities**

Centrica plc has £1,000 million of bilateral credit facilities (2004: £915 million). The Company and Hydrocarbon Resources Limited have guaranteed, jointly and severally, to pay on demand any sum, which Centrica plc does not pay in accordance with the facility agreements.

The Company is part of a group cross guarantee arrangement whereby, together with other members of the group, it has guaranteed the overdrafts of certain other group undertakings. At 31 December 2005, the Company's exposure under this guarantee was £62 million (2004: £45 million).

**21. Commitments and contingencies continued****e) Commodity purchase contracts**

The Centrica group procures gas and electricity through a mixture of production from Centrica owned gas fields and power stations and external procurement contracts.

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices. They also include gas contracts indexed to market prices and long-term gas contracts with non-gas indexation. Further information about the Centrica Group's procurement strategy is contained in the annual report of Centrica plc.

Commodity purchase commitments are estimated, on an undiscounted basis, as follows (excluding contracts with other Centrica group companies):

	2005 £m	2004 £m
Within one year	7,061	2,700
Between one and five years	15,954	11,800
After five years	10,530	8,400
	<u>33,545</u>	<u>22,900</u>

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. The resulting monetary commitment is based on the minimum quantities of gas that the Centrica group is contracted to pay at estimated future prices. In addition, the volumes used in calculating principal values are estimated using valuation techniques.

Contractual commitments which are subject to fulfilment of conditions precedent are excluded.

At 31 December 2004, the commitment was estimated using the Centrica's group average cost of gas from its contracts with third parties for the year ended 31 December 2004.

The Centrica group purchases electricity from a range of generating sources, including renewables, in respect of which a number of long-term purchase arrangements are in place. The estimated commitment at 31 December 2005 included above in respect of renewables contracts amounted to £37 million within one year, £235 million between one and five years, and £1,254 million after five years, on an undiscounted basis.

**22. Financial Instruments**

Certain procurement contracts and sales contracts constitute derivative financial instruments. These contracts are accounted for under the accrual method. Amounts payable or receivable in respect of these derivatives are recognised within cost of sales (for procurement contracts) and revenue (for sales contracts). Changes in the derivatives' fair value are not recognised.

In accordance with Statutory Instrument 04/2947 of the Companies Act 1985, the fair values of the Company's financial instruments are analysed below. These amounts are not included in the Balance Sheet as the Company has not early adopted FRS26 "*Financial Instruments: Recognition and Measurement*".

	31.12.05 £m	31.12.04 £m
<b>Derivative financial instruments held for trading</b>		
Energy derivatives - assets	1,538	315
Energy derivatives - liabilities	(1,177)	(451)

**23. Ultimate parent company**

GB Gas Holdings Limited is the immediate parent company. Centrica plc is the ultimate parent undertaking and the only group to consolidate the financial statements of the Company. Copies of the Annual Report of Centrica plc are available from [www.centrica.com](http://www.centrica.com).