

British Gas Trading Limited

Report and Financial Statements
for the year ended 31 December 2006

Registered No 3078711

THURSDAY



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BRITISH GAS TRADING LIMITED

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British Gas Trading Limited

Directors' Report

The Directors present their Report and the audited Financial Statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2006

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

This year saw commodity prices again reach record highs. This not only meant that the Company made a loss, but forced tariff increases across the industry. Turnover increased due to price increases, partially offset by lower customer numbers and reduced consumption due mainly to an unseasonably warm autumn. Operating costs increased as underlying cost reductions were more than offset by training and backfilling costs associated with the migration of customers to the new billing system, increased bad debt costs and the cost of implementing a number of price rises during the year. Included in the Financial Statements are a charge of £177.7 million (2005: £nil) relating to the impairment of the billing system and restructuring costs of £16.4 million (2005: £62.2 million) as a result of the continuing 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 £236.2 million (2005: £318.1 million).

Financial results

The results of the Company are set out on page 9.

During the year the Company made an operating loss on ordinary activities of £619.6 million for the year (2005: £566.5 million loss) and a retained loss for the year of £584.1 million (2005: £548.8 million).

Dividends

No dividends were paid for the year ended 31 December 2006 (2005: £nil).

Principal risks and uncertainties and Key Performance Indicators (KPI's)

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.

British Gas Trading Limited

Directors' Report continued

Principal risks and uncertainties and Key Performance Indicators (KPI's) (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.

The Company Directors monitor performance of individual business units that constitute British Gas Trading Limited. Key performance indicators relating to these business units are included in the Centrica Annual Report and Accounts on pages 12, 13, 15 and 16.

The future

For 2007 we are committed to the twin goals of customer service and shareholder value creation. Lower wholesale energy prices have provided us with the opportunity to reduce retail prices and we expect the completion of new systems to help address the service levels. We will also continue our search for cost-effective supply sources to rebalance our market exposure and sharpen our competitive edge.

Our investment programme will be driven by value and our cost structure will be the focus of continued stringent appraisal. Innovation will be key to our marketing effort and the application of our skills and service network to meet the growing consumer demand for energy efficiency will be at the heart of our endeavors.

Directors

The following served as directors during the year

Sir R A Gardner (resigned 30 June 2006)

M S Clare (resigned 30 September 2006)

P K Bentley

J S Ulrich

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 2006, did any Director have any interests in the shares of the Company (2005 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 2006 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.

British Gas Trading Limited

Directors' Report continued

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 any related party disclosures disclosed in the Centrica plc Annual Report and Accounts 2006, there have been no other disclosable related party transactions during the year (2005 £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 2006 was 40 days (2005 33 days)

Employment policies

During 2006, the Company employed an average of 11,101 people, all employed in the United Kingdom (2005 12,358) The disclosures surrounding the 'Employee Costs' and the Average number of employees during the year' (see note 4) 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

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

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 a disability, carers and lone parents To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees

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

Charitable and political donations

Charitable donations during the year amounted to £4,147,505 (2005 £844,876) There were no political donations made during the year (2005 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

Statement of Directors' responsibilities

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

Disclosure of information to auditors

Each of the Directors who held office at the date of approval of this Directors' Report confirm that so far as he is aware, there is no relevant audit information of which the Company's auditors are unaware and he has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information

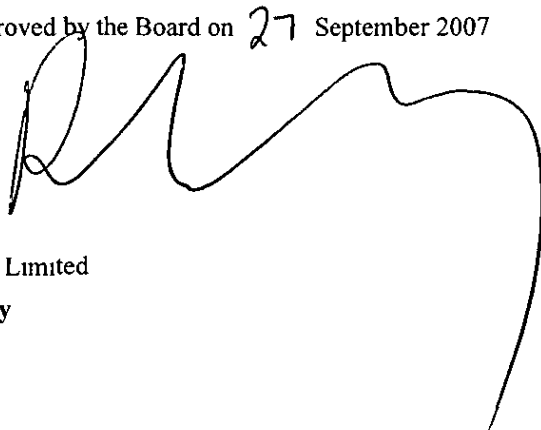
British Gas Trading Limited

Directors' Report continued

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 September 2007

A large, stylized handwritten signature in black ink, likely belonging to the Company Secretary, positioned above the signature block text.

for and on behalf of
Centrica Secretaries Limited
Company Secretary
Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

British Gas Trading Limited

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

We have audited the Financial Statements of British Gas Trading Limited for the year ended 31 December 2006, which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These Financial Statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

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

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

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

Basis of audit opinion

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

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

Opinion

In our opinion:

the Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2006 and of its loss for the year then ended,
the Financial Statements have been properly prepared in accordance with the Companies Act 1985,
the information given in the Directors' Report is consistent with the Financial Statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

Embankment Place

London

WC2N 6RH

28 September 2007

British Gas Trading Limited

Profit and Loss Account - Year ended 31 December

	Notes	2006 £000	2005 £000
Turnover	2	10,267,843	8,960,002
Cost of sales		<u>(9,379,686)</u>	<u>(8,364,444)</u>
Gross profit		888,157	595,558
Administrative expenses (includes exceptional items of £194 million (2005 £62 million))	3	<u>(1,507,776)</u>	<u>(1,162,063)</u>
Operating loss		(619,619)	(566,505)
Interest receivable	5	16,205	18,459
Interest payable	5	<u>(12,415)</u>	<u>(14,417)</u>
Loss on ordinary activities before taxation		(615,829)	(562,463)
Tax credit on loss on ordinary activities	6	31,691	13,674
Retained loss for the year	19	<u><u>(584,138)</u></u>	<u><u>(548,789)</u></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

There have been no recognised gains or losses during the year other than those shown in the profit and loss account

All activities relate to continuing activities

The notes on pages 11 to 31 form part of these Financial Statements

British Gas Trading Limited

Balance Sheet - Year ended 31 December

	Notes	2006 £000	2005 £000
Fixed assets			
Intangible assets (goodwill)	7	102,972	75,061
Tangible assets	8	265,637	447,368
Investments - shares in subsidiary	9	1,247,162	1,247,162
Investments - other	10	1,047	-
		<u>1,616,818</u>	<u>1,769,591</u>
Current assets			
Stocks	11	79,425	71,047
Debtors (amounts falling due within one year)	12	2,160,472	1,989,255
Debtors (amounts falling due after more than one year)	12	48,461	67,885
Cash at bank and in hand		46,990	7,193
		<u>2,335,348</u>	<u>2,135,380</u>
Creditors (amounts falling due within one year)			
Borrowings	14	(5,621)	(766)
Other creditors	15	<u>(3,163,306)</u>	<u>(2,509,300)</u>
		(3,168,927)	(2,510,066)
Net current liabilities		<u>(833,579)</u>	<u>(374,686)</u>
Total assets less current liabilities		783,239	1,394,905
Creditors (amounts falling due after more than one year)			
Accruals and deferred income	15	<u>(3,318)</u>	<u>(4,766)</u>
		(3,318)	(4,766)
Provisions for liabilities and charges	16	<u>(238,013)</u>	<u>(263,073)</u>
Net assets		<u>541,908</u>	<u>1,127,066</u>
Capital and reserves – equity interests			
Called up share capital	17	800,000	800,000
Share premium account	19	447,162	447,162
Profit and loss account	19	<u>(705,254)</u>	<u>(120,096)</u>
Equity shareholder's funds	20	<u>541,908</u>	<u>1,127,066</u>

The Financial Statements on pages 11 to 31 were approved and authorised for issue by the Board of Directors on September 2007 and were signed on its behalf by

Director

27 September 2007

The notes on pages 11 to 31 form part of these Financial Statements

British Gas Trading Limited

Notes to the Financial Statements

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

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

Included within Amounts owed to group undertakings is £1,503.4 million (2005: £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.

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

The Company accounts for share-based payments under FRS 20. The Centrica Group to which British Gas Trading Limited belongs has a number of employee share schemes, detailed in the Directors' Report - Corporate Responsibility on page 26 of the Centrica plc Annual Report and Accounts 2006 and in the Remuneration Report on pages 35 to 36 of the Centrica plc Annual Report and Accounts 2006 and in note 25 of the Centrica plc Annual Report and Accounts 2006, under which it makes equity-settled share-based payments to certain employees. 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 a corresponding increase in the equity over the vesting period, based on the Centrica Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based vesting conditions.

British Gas Trading Limited

Notes to the Financial Statements continued

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 awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the total shareholder return performance
LTIS 2006 EPS awards	Market value on the date of grant
LTIS 2006 TSR awards	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
Share Award Scheme	Market value on the date of grant

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.

British Gas Trading Limited

Notes to the Financial Statements continued

1 Principal accounting policies (continued)

Investments

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

Financial assets

Financial assets are included in the balance sheet at cost, less any provisions for impairment as necessary

Asset impairments

Intangible and tangible fixed assets and financial 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.

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, provided they generate future economic benefits.

Pensions

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 pension disclosures for the entire Centrica group are disclosed in the Centrica plc 2006 Annual Report on pages 87 to 89. 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 Centrica 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.

Critical accounting judgements and key sources of estimation uncertainty

Revenue recognition - unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last reading and the year end (unread). Unread gas and electricity is estimated applying industry standards and using historical consumption patterns taking into account the industry reconciliation process for total gas and total electricity usage by supplier. Management apply judgement to the measurement of the estimated energy supplied to customers and to the valuation of that energy consumption. The judgements applied, and the assumptions underpinning these judgements are considered to be appropriate. However, a change in these assumptions would impact upon the amount of revenue recognised.

Industry reconciliation process - cost of sales

The industry reconciliation process is required as differences arise between the estimated quantity of gas and electricity the Company deems to have supplied and billed customers, and the estimated quantity the industry system operator deems the individual suppliers, including the Company, to have supplied to customers. This difference in deemed supply is referred to as imbalance. The reconciliation process can result in either a higher or lower value of industry deemed supply than has been estimated as being supplied to customers by the Company, but in practice tends to result in a higher value of deemed supply. The Company then reviews the difference to ascertain whether there is evidence that its estimate of amounts supplied to customers is inaccurate or whether the difference arises from other causes. The Company's share of the resulting imbalance is included within commodity costs charged to cost of sales. Management estimate the level of recovery of imbalance which will be achieved either through subsequent customer billing or through the developing industry settlement process.

2 Segmental analysis

All of the turnover of £10,268 million (2005 £8,960 million) relate to energy supply, the principal activity of the business. All energy supply arose in the United Kingdom. This segment had an operating loss of £619.6 million in 2006 (2005 £566.5 million loss) and net assets of £541.9 million at 31 December 2006 (2005 £1,127.1 million net assets).

British Gas Trading Limited

Notes to the Financial Statements continued

3 Administrative expenses

The Company's administrative expenses, which have been charged to the profit and loss account, include:		2006	2005
	Notes	£000	£000
Amortisation of goodwill	7	6,752	3,841
Depreciation			
Owned assets	8	57,734	59,239
Operating lease rentals			
Other		4,345	4,515
Exceptional items			
Business restructuring		16,396	62,167
Impairment of billing system	8	177,688	-
Auditors' remuneration			
Statutory audit (inter group recharge)		1,269	1,128
(Profit)/loss on sale of fixed assets		(249)	29

Exceptional items

In 2007 the Company continued with its business restructuring in line with the British Gas transformation programme. The exceptional costs comprise £16.4 million (2005 £62.2 million) resulting from ongoing restructuring costs of the business and an impairment of the billing system amounting to £177.7 million (2005 £nil).

4 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 Centrica Group are disclosed in the Centrica plc 2006 Annual Report. The emoluments of Mark Clare, as the highest and only director paid for services to the Company, are fully disclosed in the Centrica plc 2006 Annual Report and in aggregate were £412,000 (2005 £868,000).

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 2006 was £151,200 (2005 £138,100).

	2006	2005
	£000	£000
Employee costs		
Wages and salaries	277,638	285,783
Social security costs	26,276	24,965
Other pension and retirement benefits costs	33,510	28,693
Executive share option scheme	1,033	913
Long term incentive scheme	3,376	2,295
Share incentive plan	1,561	1,460
Employee sharesave scheme	2,308	2,992
Share Award Scheme	329	-
	346,031	347,101

Included within exceptional restructuring costs are employment costs of £16.4 million (2005 £42.7 million).

British Gas Trading Limited**Notes to the Financial Statements continued**

4 Directors and employees (continued)**Average number of employees during the year**

The average number of employees, all employed in the United Kingdom, during the year was 11,101 compared to 12,358 for 2005. 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.

5 Net interest

	Notes	2006 £000	2005 £000
Interest receivable			
Notional interest arising on discounted items		5,472	6,563
Other interest receivable		10,733	11,896
		<u>16,205</u>	<u>18,459</u>
Interest payable			
Interest payable on bank loans and overdrafts		(1,401)	(2,022)
Interest payable to group undertakings		(5,045)	(6,486)
Notional interest arising on discounted items	16	<u>(5,969)</u>	<u>(5,909)</u>
		<u>(12,415)</u>	<u>(14,417)</u>
Net interest receivable		<u>3,790</u>	<u>4,042</u>

British Gas Trading Limited

Notes to the Financial Statements continued

6 Tax on loss on ordinary activities

	2006	2005
	£000	£000
Total current tax	-	-
Deferred tax	-	-
Origination and reversal of timing differences	(32,882)	(14,558)
Adjustments in respect of prior years	1,191	884
	<u>(31,691)</u>	<u>(13,674)</u>
Total tax credit on loss on ordinary activities	<u>(31,691)</u>	<u>(13,674)</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 loss before tax is as follows

	2006	2005
	£000	£000
Loss on ordinary activities before tax	<u>(615,829)</u>	<u>(562,463)</u>
Tax credit on loss on ordinary activities at standard UK corporation tax rate of 30% (2004 30%)	(184,749)	(168,739)
Effects of		
Expenses not deductible for tax purposes	73,222	97,108
Dividend income not taxable	-	-
Utilisation of timing differences including losses	(10,219)	27,236
Capital allowances in excess of depreciation	43,100	(12,678)
UK UK transfer pricing	(19,587)	(3,751)
Group relief for nil consideration	<u>98,233</u>	<u>60,824</u>
	<u>-</u>	<u>-</u>

7 Intangible fixed assets (goodwill)

	Goodwill £000
Cost	
At 1 January 2006	90,611
Additions	<u>34,663</u>
At 31 December 2006	125,274
Amortisation	
At 1 January 2006	(15,550)
Charge for the year	<u>(6,752)</u>
At 31 December 2006	(22,302)
Net book value	
At 31 December 2006	<u>102,972</u>
At 31 December 2005	<u>75,061</u>

British Gas Trading Limited

Notes to the Financial Statements continued

7 Intangible fixed assets (goodwill) (continued)

The intangible assets include goodwill arising on the following,

		Economic life	Original cost £000	Carrying amount £000
Trade and assets of Enron Direct	2001	15	56,962	37,660
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	8,273
Trade and assets of Electricity Direct	2005	15	24,903	23,243
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34,663	33,796
			125,274	102,972

The Company acquired a further 6,000 gas customers from Total Fina Elf Limited on 1 July 2006 for consideration and costs of £7.3m. 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'). Goodwill of £30.2 million was recognised representing the Gas Supply Agreement and £4.5 million was recognised for the customer relationship asset representing the future benefit of the customers renewing with the Company. £27.4 million was provided for as an onerous contract provision representing the loss on sales contracts. The £34.7m million goodwill is being amortised over 20 years, being the useful economic life.

8 Tangible fixed assets

	Plant, equipment and vehicles £000
Cost	
At 1 January 2006	724,210
Additions	54,733
Disposals	(129,088)
At 31 December 2006	649,855
Accumulated depreciation	
At 1 January 2006	(276,842)
Charge for the year (note 3)	(57,734)
Impairment (note 3)	(177,688)
Disposals	128,046
At 31 December 2006	(384,218)
Net book value	
At 31 December 2006	265,637
At 31 December 2005	447,368

9 Investments - shares in subsidiary

	Shares in subsidiary £000
Cost and net book value	
At 31 December 2005	1,247,162
At 31 December 2006	1,247,162

British Gas Trading Limited**Notes to the Financial Statements continued****9 Investments - shares in subsidiary (continued)****Interests in subsidiaries**

As at 31 December 2006 the Company had interests in the issued share capital of the subsidiary undertakings listed below

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

Income from fixed

No dividends were received during the year (2005 £nil)

10 Investments - other

	2006 £000	2005 £000
At 1 January 2006	-	-
Acquisitions	1,047	-
At 31 December 2006	1,047	-

During 2006 the Company invested in a carbon fund and managed account managed through a closed-end limited partnership called Climate Change Capital

11 Stocks

	2006 £000	2005 £000
Gas in storage	79,425	71,047

12 Debtors

	2006 Within one year £000	2006 After more than one year £000	2005 Within one year Restated £000	2005 After more than one year £000
Trade debtors	771,141	-	521,966	-
Accrued energy income	1,083,458	-	1,226,449	-
Amounts owed by group undertakings	48,175	10,796	4,493	14,389
Deferred corporation tax	51,092	37,665	3,570	53,496
Other debtors	170,723	-	190,324	-
Prepayments and other accrued income	35,883	-	42,453	-
	2,160,472	48,461	1,989,255	67,885

British Gas Trading Limited

Notes to the Financial Statements continued

12 Debtors (continued)

Included within Amounts owed by group undertakings is £2.3 million (2005 £4.5 million) that is due from Centrica Resources Limited, £8.3 million (2005 £nil) that is due from Hydrocarbon Resources Limited £35.8 million (2005 £nil) that is due from Accord Energy Limited, £0.5 million (2005 £nil) that is due from Centrica Resources (Nigeria) Limited £1.0 million (2005 £nil) that is due from Centrica Resources (Norge) AS and £0.2 million (2005 £nil) that is due from Centrica Energie GmbH. These amounts receivable are unsecured, interest free and repayable within one year, except for the amount owed by Hydrocarbon Resources Limited, where compound interest is receivable at the Bank of England base rate plus 0.5%. Also included in Amounts owed by group undertakings after more than one year is £10.8 million (2005 £14.4m) that is due from Centrica Resources Limited and this amount receivable is unsecured and interest free.

Trade debtors, Accrued energy income and Other debtors have been restated due to an error in the classification of customer debt in 2005. The overall total amounts receivable for 2005 within one year was unaffected. This has had the following effect on the 2005 balances: Trade debtors reduced by £64.2 million, Accrued energy income increased by £62.7m and Other debtors increased by £1.5m.

13 Deferred Taxation

Deferred tax assets/(liabilities) comprise

	Amounts recognised		Amounts unrecognised	
	2006	2005	2006	2005
	£000	£000	£000	£000
Deferred corporation tax				
- accelerated capital allowances	2,664	(39,145)	-	-
- other timing differences	86,093	96,211	-	40
	<u>88,757</u>	<u>57,066</u>	<u>-</u>	<u>40</u>

A number of changes to the UK Corporation tax system were announced in March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the balance sheet date and, therefore, are not included in these Financial Statements. The effect of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax asset recognised at 31 December 2006 by £2,511,000 and would increase losses for the year by the same amount. This decrease in deferred tax is due to the reduction in the corporation tax rate from 30 per cent to 28 per cent with effect from 1 April 2008. The other changes enacted would have no further effects on the deferred tax provided at 31 December 2006.

14 Borrowings

	2006	2006	2005	2005
	Within one year	After more than one year	Within one year	After more than one year
	£000	£000	£000	£000
Bank loans and overdrafts	<u>5,621</u>	<u>-</u>	<u>766</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.

15 Other creditors

	2006	2006	2005	2005
	Within one year	After more than one year	Within one year	After more than one year
	£000	£000	£000	£000
Trade creditors	874,166	-	873,420	-
Amounts owed to group undertakings	1,522,191	-	1,015,296	-
Taxation and social security	26,643	-	23,876	-
Other creditors	513,438	-	379,168	-
Accruals and deferred income				
Transportation	19,745	-	34,427	-
Other accruals and deferred income	207,123	3,318	183,113	4,766
	<u>3,163,306</u>	<u>3,318</u>	<u>2,509,300</u>	<u>4,766</u>

British Gas Trading Limited

Notes to the Financial Statements continued

15 Other creditors (continued)

Included within Amounts owed to group undertakings is £1,503.4 million (2005 £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 £13.1 million (2005, £nil) that is due to British Gas Services Limited, £5.7 million (2005 £3.5 million) that is due to Centrica Storage Limited and £nil (2005 £63.8 million) that is due to Hydrocarbon Resources Limited. These amounts are due within one year, are unsecured and interest free.

16 Provisions for liabilities and charges

	As at 1 Jan 2006	Acquisitions	Profit and loss charge/ (credit)	Notional Interest	Utilised	As at 31 Dec 2006
	£000	£000	£000	£000	£000	£000
Sales contract loss and renegotiation provisions	200,497	27,431	(19,823)	5,969	(16,566)	197,508
Restructuring costs	60,708	-	16,396	-	(39,010)	38,094
Other	1,868	-	1,197	-	(654)	2,411
	<u>263,073</u>	<u>27,431</u>	<u>(2,230)</u>	<u>5,969</u>	<u>(56,230)</u>	<u>238,013</u>

Sales contract loss and renegotiation provisions

The sales contract loss provision should represent 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.

In previous years, the Company renegotiated certain long-term take-or-pay contracts, which would otherwise 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 (on the unwind of a discounted liability) (2005 £6 million).

Restructuring costs

The provision represents business restructuring costs and mainly relates to staff redundancies. The profit and loss charge for the year of £16.4 million (2005 £62.2 million) related to exceptional redundancy costs (see note 3).

Other

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

17 Called up share capital

	2006 £000	2005 £000
Authorised		
1,800,000,100 ordinary shares of £1 each	1,800,000	1,800,000
1 redeemable share of £1	-	-
On 27 June 1996 1 redeemable share of £1 was issued, which was subsequently redeemed on 17 February 1997		
Called up, allotted and fully paid		
800,000,100 ordinary shares of £1 each	<u>800,000</u>	<u>800,000</u>

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments

Centrica plc operates six employee share schemes - the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Share Incentive Plan (SIP) and the Employee Share Purchase Plan (ESPP) (no British Gas Trading Limited employees are eligible to participate in this scheme, only Centrica employees in North America). These are described in the Directors' Report - Corporate Responsibility on page 26 of the Centrica plc Annual Report and Accounts 2006 and in the Remuneration Report on pages 34 to 36 of the Centrica plc Annual Report and Accounts 2006. 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.

The fair values and the related assumptions used in the calculations are as follows:

Grant date	27 April 2006	23 September 2005	1 April 2005	1 September 2004	18 March 2004	1 September 2003	24 March 2003
Share price at grant date	£2.99	£2.46	£2.28	£2.46	£2.28	£1.80	£1.47
Exercise price	£2.85	£2.51	£2.29	£2.45	£2.24	£1.78	£1.47
Number of options originally granted	6,220,098	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	3 yrs
Expected volatility (i)	24%	30%	30%	27%	27%	35%	35%
Contractual option life	10 yrs	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	5 yrs
Risk-free rate	4.70%	4.80%	4.70%	5.00%	5.01%	4.45%	4.44%
Expected dividend yield	4.10%	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	25%	25%	25%	25%	25%	25%	25%
Fair value per option	£0.59	£0.50	£0.49	£0.47	£0.45	£0.51	£0.41

(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:

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments (continued)

	2006		2005	
	Number	Weighted average exercise Price £	Number	Weighted average exercise Price £
Outstanding at start of period	10,227,117	2 06	7 393,884	1 97
Granted	2,158,280	2 85	2,863,162	2 30
Exercised	(3,824,307)	1 84	(43 324)	2 40
Forfeited	(1,433,571)	2.39	13 395	2 24
Outstanding at the end of the period	7,127,519	2 35	10,227,117	2 06
Exercisable at the end of the period	1,573,594	2 00	2 415,618	2 31

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

2006				2005			
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	593,451	6 3	£1 40 – £1 49	£1 47	2 634 235	7 3
£2 20 – £2 29	£2 27	4,242,069	7 5	£1 70 – £1 79	£1 78	253 164	7 7
£2 40 – £2 49	£2 40	458,236	4 4	£2 20 – £2 29	£2 26	6 237 439	8 2
£2 50 – £2 59	£2 51	109,365	8 8	£2 40 – £2 49	£2 40	992,914	5 4
£2 80 – £2 89	£2 85	1,724,398	9 3	£2 50 – £2 59	£2 51	109 365	9 8
	£2 35	7,127,519	7 7		£2 06	10 227,117	7 7

For options exercised during the period the weighted average share price was £2 92 (2005 £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 77 employees are currently eligible to participate. For awards made up to 2005, the number of shares that are to be released to participants is calculated subject to Centrica plc'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. Shares are released to participants immediately following the end of the period in which TSR performance is assessed, but 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.

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments (continued)

For awards made from 2006, the vesting of only half of each award is made on the basis of TSR performance. For this half of the award, the calculation of TSR performance as compared to the TSR of other FTSE 100 index shares is consistent with awards made to the end of 2005, except that allocations are valued using a Monte Carlo simulation model. The number of shares released is increased on a sliding scale between 25% and 100% if Centrica plc's TSR is ranked between 50th and 20th. The vesting of the remaining half of awards made since 2006 is dependent on earnings per share (EPS) growth. This is considered a non-market condition under FRS 20 and dividends attach to the awards, requiring the shares to be fair valued at market value on the date of grant. The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest. For shares that vest on awards made from 2006 (for both TSR and EPS portions) the cash payment is increased to reflect the dividends that would have been paid on them during the performance period.

The fair value and the related assumptions used in the calculations are as follows

Grant date	4 September 2006	19 May 2006	2 May 2006	23 September 2005	1 April 2005	1 September 2004	1 April 2004	1 September 2003	1 April 2003
Share price at grant date	£3.03	£2.65	£3.01	£2.46	£2.28	£2.46	£2.30	£1.80	£1.47
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	654,396	1,456,064	6,153,355	456,421	8,408,130	310,460	9,765,341	665,696	13,573,547
Vesting period	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (ii)	22%	22%	21%	30%	30%	27%	27%	35%	35%
Contractual life	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	3 yrs	2.9 yrs	2.9 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	4.80%	4.80%	4.70%	4.80%	4.68%	5.00%	5.04%	4.31%	3.88%
Expected dividend yield	n/a	n/a	n/a	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	20%	20%	20%	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	30%	30%	30%	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	(ii)	(ii)	(ii)	(ii)	(ii)	30%	30%	30%	30%
Fair value per share allocated - TSR awards	£1.66	£1.38	£1.80	£1.20	£1.03	£1.25	£1.17	£0.99	£0.89
Fair value per share allocated - EPS awards	£3.03	£2.65	£3.01	n/a	n/a	n/a	n/a	n/a	n/a

(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%. 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. 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.

	2006	2005
	Number	Number
Outstanding at start of period	7,583,597	7,324,273
Granted	2,478,685	2,892,029
Exercised	(1,806,014)	(2,107,113)
Forfeited – performance related	(1,855,370)	(298,848)
Forfeited – non-performance related	-	(226,744)
Outstanding at the end of the period	6,400,898	7,583,597
Exercisable at the end of the period	-	-

From 2005, the cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica plc's historical share price and each of the FTSE 100 over the period commensurate with the performance period of the awards.

For shares released during the period the weighted average share price was £2.88 (2005 £2.40).

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments (continued)

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, including interest earned. 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. The fair values and the related assumptions used in the calculations are as follows:

Grant date	10 April 2006	10 April 2006	6 April 2005	6 April 2005	1 April 2004	1 April 2004	8 April 2003
Share price at grant date	£2.86	£2.86	£2.36	£2.36	£2.30	£2.30	£1.59
Exercise price	£2.38	£2.38	£1.88	£1.88	£1.83	£1.83	£1.07
Number of options originally granted	3,587,711	8,548,648	4,329,658	5,791,571	3,854,639	7,407,793	37,280,748
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Expected volatility (m)	25%	23%	30%	30%	27%	27%	35%
Contractual option life	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Risk-free rate	4.5%	4.5%	4.65%	4.64%	5.13%	5.04%	3.90%
Expected dividend yield	4.1%	4.1%	4.37%	4.37%	4.82%	4.82%	3.09%
Expected forfeitures	40%	25%	40%	25%	40%	25%	40%
Fair value per option	£0.72	£0.65	£0.68	£0.64	£0.61	£0.58	£0.64

(iii) 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%. 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. 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:

	2006		2005	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at start of period	20,766,634	£1.28	20,362,823	£1.23
Granted	2,860,713	£2.38	2,691,866	£1.88
Exercised	(8,371,460)	£1.12	(1,637,804)	£1.51
Forfeited	(3,316,218)	£1.54	(650,251)	£1.54
Transfers between group entities	-	-	-	-
Outstanding at the end of the period	11,939,669	£1.58	20,766,634	£1.28
Exercisable at the end of the period	3,879	£1.07	1,069	£1.78

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments (continued)

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

2006				2005			
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	5,739,687	1 9	£1 00-£1 09	£1 07	15,231,124	1 9
£1 70-£1 79	£1 78	429,319	0 9	£1 70-£1 79	£1 78	563,403	1 9
£1 80-£1 89	£1 86	3,420,338	2 1	£1 80-£1 89	£1 86	4,596,648	3 1
£1 90-£1 99	£1 91	1,766	0	£1 90-£1 99	£1 91	375,459	0 9
£2 30-£2 39	£2 38	2,348,559	3 4				
	£1 58	11,939,669	2 2		£1 28	20,766,634	2 2

For options exercised during the period the weighted average share price was £2 80 (2005 £2 33)

SAS

Under the SAS allocations of shares in Centrica plc are made to employees of the Group. Awards under SAS are generally reserved for certain selected employees at middle management levels based on recommendation by the executive. There is no contractual eligibility for SAS and each year's award is made independently from previous awards. For the 2006 award 132 employees were eligible to participate. Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group in two stages - half of the awards vesting after two years the other half vesting after three years. On vesting additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the retention period. The fair value is therefore considered to be the market value at the date of grant. The fair values and related assumptions used to calculate the cost to the Group are as follows

Grant date	3 April 2006	3 April 2005
Share price at grant date	£2 84	£2 84
Exercise price	£nil	£nil
Number of options originally granted	780,367	780,143
Vesting period	3 yrs	2 yrs
Contractual option life	3 yrs	2 yrs
Expected forfeitures	25%	15%
Fair value per option	£2 84	£2 84

British Gas Trading Limited

Notes to the Financial Statements continued

18 Share-based payments (continued)

A reconciliation of movements in the allocation is as follows

	2006	2005
	Number	Number
Outstanding at start of period	-	-
Granted	457,318	-
Shares sold and transferred out of plan	-	-
Forfeited	(11,363)	-
Outstanding at end of period	445,955	-
Exercisable at end of period	-	-

For shares released during the period, the weighted average share price was £nil (2005 £nil)

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 £2.97 (2005 £2.36). A reconciliation of matching shares held in trust is as follows

	2006	2005
	Number	Number
Unvested at start of period	1,582,929	1,097,623
Granted	643,928	711,159
Shares sold and transferred out of the plan	(152,924)	(136,216)
Forfeited	(105,956)	(89,637)
Unvested at end of period	1,967,977	1,582,929

British Gas Trading Limited

Notes to the Financial Statements continued

19 Reconciliation of movements in reserves

	Share Premium £000	Profit and Loss £000
As at 1 January 2006	447,162	(120,096)
Loss for the financial year	-	(584,138)
Employee share option schemes		
Value of services provided	-	(1,020)
As at 31 December 2006	<u>447,162</u>	<u>(705,254)</u>

The profit and loss account can be further analysed as follows

	Share Option Reserves £000	Other £000	Profit and Loss £000
As at 1 January 2006	13,064	(133,160)	(120,096)
Loss for the financial year	-	(584,138)	(584,138)
Employee share option schemes			
Value of services provided	(1,020)	-	(1,020)
As at 31 December 2006	<u>12,044</u>	<u>(717,298)</u>	<u>(705,254)</u>

20 Reconciliation of movements in equity shareholder's funds

	2,006 £000	2005 £000
As at 1 January	1,127,066	1,669,655
Loss for the financial year	(584,138)	(548,789)
Employee share option schemes		
Value of services provided	(1,020)	6,200
As at 31 December	<u>541,908</u>	<u>1,127,066</u>

British Gas Trading Limited

Notes to the Financial Statements continued

21 Commitments and contingencies

	2006 £000	2005 £000
a) Capital commitments		
Contracted for but not provided	-	31 260
b) Lease commitments		
At 31 December non-cancellable operating lease commitments of the Company for the following year were	2006 £000	2005 £000
Expiring		
- Between one and five years	2,053	4,901
	2,053	4,901

There were no operating leases relating to land and buildings (2005 £nil)

c) Pensions

The majority of the Company's UK employees as at 31 December 2006 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 £33,509,720 (2005 £28,693,299). The amount outstanding at the balance sheet date was nil (2005 nil). The latest actuarial valuation of the schemes, updated for the purposes of FRS 17 show a total deficit of £226 million (£158 million net of deferred tax) (2005 £604 million (£421 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 carried out at least triennially, the last of which was as at 31 March 2006.

d) Guarantees and indemnities

Centrica plc has £1,300 million of bilateral credit facilities (2005 £1,000 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 2006, the Company's exposure under this guarantee was £48 million (2005 £62 million).

British Gas Trading Limited

Notes to the Financial Statements continued

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 (note 33 page 92 of the Centrica Annual Report and Accounts)

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

	2006 £m	2005 £m
Within one year	6,660	7,061
Between one and five years	15,381	15,954
After five years	9,640	10,530
	<u>31,681</u>	<u>33,545</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 fulfillment of conditions precedent are excluded.

f) Contingent liabilities

The Company is currently in dispute with Her Majesty's Revenue and Customs (HMRC) on a technical matter concerning intra-group transfer pricing of gas produced within the UK Continental Shelf. The Company has taken advice of leading tax counsel, and believes that the risk that HMRC will succeed in its arguments is remote or slight.

British Gas Trading Limited

Notes to the Financial Statements continued

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 06	31 12 05
	£m	£m
Derivative financial instruments held for trading		
Energy derivatives - assets	402	1,538
Energy derivatives - liabilities	(1,375)	(1,177)

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.