British Gas Trading Limited

Annual report

for the year ended 31 December 2003

Registered No : 3078711

British Gas Trading Limited
Year ending 31 December 2003

Directors' report

The directors present their report and audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2003.

Principal activities

The principal activity of the Company was the provision of gas and electricity to homes and businesses in Great Britain.

Business review

In 2003 there was a sharp rise in UK wholesale prices for both gas and electricity despite lower than average consumption due to warmer weather. Performance was also impacted by £22 million (2002: £26 million) expensed investment in customer relationship management (CRM) infrastructure, to enable improved service levels, a lower cost to serve and lower cost to acquire new product relationships.

Financial results

The profit and loss of the Company is set out on pages 7 to 8.

The Company recorded an operating loss on ordinary activities of £63 million for the year (2002: £19 million profit) and its position at the end of the financial year is set out on page 9

Future developments

The Company continues to maintain its position as the leading energy supplier in the United Kingdom and also continues to grow its share of the electricity market through value enhancing acquisitions and organic growth.

Major acquisitions and disposals

The Company did not make any acquisitions or disposals during the year.

Post Balance Sheet Events

On 3 June 2004 the Centrica Group announced an acceleration of the transformation process in the British Gas Brand, with proposals to change part of the organisational structure. These changes may result in a number of job losses in British Gas Trading Limited (note 20).

Dividends and transfers to reserves

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (2002: £nil). In 2003 £58 million of losses was transferred to reserves (2002: £22 million of losses transferred to reserves).

Directors

The following served as directors during the year:

Sir R A Gardner

M R Alexander

M S Clare

P K Bentley

Mike Alexander retired from the board on 28 February 2003.

Directors' report (continued)

Directors' interests

At no time during the year ended 31 December 2003, did any director have any interests in the shares of the Company 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 Sir R A Gardner, M R Alexander, M S Clare and P K Bentley in the shares, and options over shares, in the ultimate parent company, Centrica plc, are shown in the 2003 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. There have been no other disclosable related party transactions during the year (2002: £nil).

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 2003 was 33 days (2002: 32 days).

Employment policies

During 2003, the Company employed an average of 13,174 people, all employed in the United Kingdon (2002: 11,064).

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 the number of people working in the business.

The 2002 average number of employees has been restated from 9,211 to 11,064 to reflect this revised basis for preparing the number of employees.

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for disabled people and carers. The Centrica Group, to which British Gas Trading Limited belongs, is a member of the Employers Forum on Disability and the Employers Forum on Age.

The Company's business principles and policies set out standards and expectations of behaviour 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 recognised trade unions. Employees' views are also sought using a network of local consultative bodies. Employment policies and a range of other information are included on Essential, a new intranet portal that was launched in 2003.

Directors' report (continued)

Employment policies (continued)

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.

Political and charitable donations

Charitable donations during the year amounted to £145,286 (2002: £241,043). No donations were made for political purposes during the year (2002: £nil)

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

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 24th September 2004.

Ian Ritchie

For and on behalf of

Centrica Secretaries Limited

Company Secretary

24th September 2004

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire SL4 5GD

Statement of directors' responsibility for preparing the financial statements

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; 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 auditors' report to the shareholders of British Gas Trading Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies note.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards 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 United Kingdom Auditing Standards issued by the Auditing Practices Board. 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 transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

Basis of audit opinion

We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2003 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

24 September 2004

British Gas Trading Limited

Profit and Loss Account
For the year ended 31 December

	Notes	2003 £000	2002 £000
Turnover - continuing operations		**8,032,454**	7,533,628
- discontinued operations		**-**	46,182
Turnover	2	**8,032,454**	7,579,810
Cost of sales - continuing operations		**(7,079,935)**	(6,570,737)
- discontinued operations		**-**	(20,093)
Cost of sales		**(7,079,935)**	(6,590,830)
Gross profit - continuing operations		**952,519**	962,891
- discontinued operations		**-**	26,089
Gross profit		**952,519**	988,980
Administrative expenses			
- continuing operations		**(1,015,031)**	(949,830)
- discontinued operations		**-**	(20,495)
Administrative expenses		**(1,015,031)**	(970,325)
Operating (loss)/profit - continuing operations		**(62,512)**	13,061
- discontinued operations		**-**	5,594
Operating (loss)/profit	3	**(62,512)**	18,655

Profit and Loss Account (continued)
For the year ended 31 December

	Notes	2003 £000	2002 £000
Loss on disposal of business		-	(8,051)
Interest receivable	5	**20,050**	21,992
Interest payable	5	**(17,295)**	(16,012)
(Loss)/profit on ordinary activities before taxation		**(59,757)**	16,584
Tax credit/(charge) on (loss)/profit on ordinary activities	6	**1,300**	(38,525)
Loss on ordinary activities after taxation for the financial year		**(58,457)**	(21,941)
Dividends		-	-
Loss for the year		**(58,457)**	(21,941)

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

There are no recognised gains or losses other than the loss for the financial year.

The notes on pages 10 to 23 form part of these financial statements.

Balance Sheet
As at 31 December

	Notes	2003 £000	2002 £000
Fixed assets			
Intangible assets (goodwill)	7	**49,051**	52,848
Tangible assets	8	**396,919**	312,856
Investments	9	**1,285,347**	1,297,023
		1,731,317	1,662,727
Current assets			
Stocks	10	**71,733**	64,495
Debtors (amounts falling due within one year)	11	**1,312,234**	1,209,024
Debtors (amounts falling due after more than one year)	11	**103,602**	113,277
Cash at bank and in hand		**4,206**	3,972
		1,491,775	1,390,768
Creditors (amounts falling due within one year)			
Borrowings	13	**(10,990)**	-
Other creditors	14	**(2,102,879)**	(1,819,395)
		(2,113,869)	(1,819,395)
Net current (liabilities)		**(622,094)**	(428,627)
Total assets less current liabilities		**1,109,223**	1,234,100
Creditors (amounts falling due after more than one year)			
Accruals and deferred income	14	**(2,236)**	(5,176)
		(2,236)	(5,176)
Provisions for liabilities and charges	15	**(198,606)**	(262,086)
Net assets		**908,381**	966,838
Capital and reserves – equity interests			
Called up share capital	16	**800,000**	800,000
Share premium account	17	**447,162**	447,162
Profit and loss account	17	**(338,781)**	(280,324)
Equity shareholder funds	18	**908,381**	966,838

The financial statements were approved by the Board of Directors on 24th September 2004 and were signed on its behalf by:

Director P. K. BENTLEY

The notes on pages 10 to 23 form part of these financial statements.

Notes to the accounts

1. Principal accounting policies

Accounting principles

The financial statements have been prepared in accordance with applicable accounting standards and under the historical cost convention and the Companies Act 1985.

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 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.

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 cost of qualifying employee share schemes is accounted for using the market price at each balance sheet date, less the option price of shares being purchased. The cost of the scheme is recognised over the life of the scheme. Any changes in the cost of the schemes resulting from changes in the market price of the shares at the balance sheet dates are pro-rated over the remaining life of the scheme.

Long term incentive schemes

The cost of potential share awards under the Centrica plc group's long term incentive scheme is charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

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.

Notes to the accounts (continued)

1. Principal accounting policies (continued)

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) 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 the shorter of the lease term or their useful economic life.

Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at cost. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within creditors. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account on a straight-line basis.

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 accumulated provisions for amortisation and any impairment.

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.

Notes to the accounts (continued)

1. Principal accounting policies (continued)

Pensions

Pensions are accounted for in accordance with SSAP 24, Pension Costs. The Company participates in group defined benefit pension schemes and contributions and pension costs are based on pension costs across the Group as a whole.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Long term sales contracts

Provision is made for the net present cost, using a risk free discount rate, of any expected losses on long term sales contracts, which at inception are onerous. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

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 all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

Deferred tax is 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 substantively enacted by the balance sheet date.

Deferred tax is measured on a non-discounted basis.

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. Segmental analysis

Included within turnover was £8,032 million (2002: £7,580 million) relating to energy supply, the principal activity of the business. Substantially all energy supply arose in the United Kingdom. This segment had an operating loss of £63 million in 2003 (2002: £19 million profit) and net assets of £908 million at 31 December 2003 (2002: £967 million net assets).

3. Operating (loss)/profit

	2003	2002
	£000	£000
Operating (loss)/profit is stated after charging/(crediting):		
Amortisation of goodwill	**3,797**	4,068
Depreciation:		
Owned assets	**43,418**	40,427
Leased assets	**-**	575
Operating lease rentals:		
Plant and machinery	**-**	-
Other	**6,740**	6,990
Exceptional item	**(51,477)**	-
Auditors' remuneration:		
Statutory audit	**394**	362
Other	**381**	541

Exceptional item

In 1997 British Gas Trading Limited re-negotiated 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. A provision was made covering the net present cost of estimated further payments resulting from those renegotiations including one due for future settlement in 2008 based on the reserves in a group of third party fields. Published estimates of these reserves have indicated a reduction from the 1997 forecast level of reserves. The provision has been reduced by £51 million based on a conservative view of the revised reserve levels.

4. Directors and employees

Directors' emoluments

Roy Gardner, Mike Alexander and Phillip Bentley received no emoluments in respect of their services to the Company. The emoluments of Mark Clare, as the highest and only paid director, are fully disclosed in the Centrica plc 2003 Annual Report and in aggregate were £787,000 (2002: £626,000).

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 2003 was £89,900 (2002: £74,300).

	2003 £000	2002 £000
Staff costs during the year (including directors)		
Wages and salaries	**242,051**	189,750
Social security costs	**21,531**	14,307
Other pension and retirement benefits costs	**20,895**	18,836
Long term incentive scheme	**2,257**	3,417
Share incentive plan	**421**	-
Employee sharesave scheme	**(2,328)**	(2,337)
Redundancy costs	**2,276**	909
	287,103	224,882

Average number of employees during the year

The average number of employees, all employed in the United Kingdom, during the year was 13,174 compared to 11,064 for 2002. 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.

The 2002 average number of employees has been restated from 9,211 to 11,064 to reflect this revised basis for preparing the number of employees.

5. Net interest

	2003 £000	2002 £000
Interest receivable		
Interest receivable from group companies	**544**	-
Notional interest arising on discounted items	**6,621**	7,557
Other interest receivable	**12,885**	14,435
	20,050	21,992
Interest payable		
Interest payable on bank loans and overdrafts	**(2,735)**	(1,339)
Interest payable to group companies	**(268)**	-
Finance lease charges	**-**	(352)
Notional interest arising on discounted items	**(14,292)**	(14,321)
	(17,295)	(16,012)
Net interest receivable	**2,755**	5,980

6. Tax on (loss)/profit on ordinary activities

	2003 £000	2002 £000
Total current tax	**-**	-
Deferred tax:		
Origination and reversal of timing differences	**58,793**	38,525
Adjustments in respect of prior years	**(60,093)**	-
Total tax on (loss)/profit on ordinary activities	**(1,300)**	38,525

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:

	2003 £000	2002 £000
(Loss)/profit on ordinary activities before tax	**(59,757)**	16,584
Tax on (loss)/profit on ordinary activities at standard UK corporation tax rate of 30% (2002: 30%)	**(17,927)**	4,976
Effects of:		
Expenses not deductible for tax purposes	**77,363**	79,644
Utilisation of timing differences including losses	**(38,298)**	(64,373)
Capital allowances in excess of depreciation	**(21,138)**	(20,247)
	-	-

7. Intangible fixed assets (goodwill)

	Goodwill £000
Cost	
At 1 January 2003	56,962
At 31 December 2003	**56,962**
Amortisation	
At 1 January 2003	(4,114)
Charge for the year	(3,797)
At 31 December 2003	**(7,911)**
Net book value	
At 31 December 2003	**49,051**
At 31 December 2002	52,848

The intangible assets comprise goodwill arising on the acquisition of the trade and assets of Enron Direct Limited. The useful economic life of this goodwill is 15 years, representing the period over which the value of the underlying business acquired is expected to exceed the values of its identifiable net assets.

8. Tangible fixed assets

	Plant and Machinery £000	Equipment and vehicles £000	Total £000
Cost			
At 1 January 2003	11,040	468,650	479,690
Additions	781	129,277	130,058
Disposals	(3,797)	(38,248)	(42,045)
At 31 December 2003	**8,024**	**559,679**	**567,703**
Accumulated depreciation			
At 1 January 2003	(6,843)	(159,991)	(166,834)
Charge for the year	(1,444)	(41,974)	(43,418)
Disposals	3,597	35,871	39,468
At 31 December 2003	**(4,690)**	**(166,094)**	**(170,784)**
Net book value			
At 31 December 2003	**3,334**	**393,585**	**396,919**
At 31 December 2002	4,197	308,659	312,856

The finance leases held in 2002 have expired and no new finance lease agreements have been entered into.

Notes to the accounts (continued)

9. Fixed asset investments

	Shares in subsidiary £000
Cost and net book value	
At 31 December 2002	1,297,023
Repayment of contingent consideration (i)	(11,676)
At 31 December 2003	**1,285,347**

(i) On the acquisition of Electricity Direct Limited, consideration of £12 million was paid but held in escrow, contingent upon verification of certain working capital balances acquired. Following verification, an amount of £12 million was repaid to the Company. Final consideration totalled £38 million.

Interests in subsidiaries

As at 31 December 2003 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	Electricity Supply	United Kingdom	100%

Income from fixed asset investments

No dividend (2002: £nil) was received from Hydrocarbon Resources Limited or Electricity Direct (UK) Limited during the year ended 31 December 2003.

10. Stocks

	2003 £000	2002 £000
Gas in storage	**71,733**	64,495

Notes to the accounts (continued)

11. Debtors

	2003 Within one year £000	2003 After more than one year £000	2002 Within one year £000	2002 After more than one year £000
Trade debtors	**459,865**	**-**	346,197	-
Accrued energy income	**681,264**	**-**	717,644	-
Amounts owed by group undertakings	**6,420**	**24,922**	7,303	28,750
Deferred corporation tax	**4,762**	**40,497**	-	43,959
Other debtors	**145,314**	**34,084**	98,204	40,221
Prepayments and accrued income	**14,609**	**4,099**	39,676	347
	1,312,234	**103,602**	1,209,024	113,277

12. Deferred taxation

Deferred tax assets comprise:	**Amounts recognised**		**Amounts unrecognised**	
	2003 £000	2002 £000	**2003 £000**	2002 £000
Deferred corporation tax				
- accelerated capital allowances	**(15,980)**	-	**-**	3,267
- other timing differences	**61,239**	43,959	**138**	58,632
	45,259	43,959	**138**	61,899

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 will be regularly re-assessed.

Notes to the accounts (continued)

13. Borrowings

	2003 Within one year £000	2003 After more than one year £000	2002 Within one year £000	2002 After more than one year £000
Bank loans and overdrafts (i)	**10,990**	-	-	-

(i) 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.

14. Other creditors

	2003 Within one year £000	2003 After more than one year £000	2002 Within one year £000	2002 After more than one year £000
Trade creditors	**502,840**	-	424,542	-
Amounts owed to group undertakings	**931,101**	-	813,952	-
Taxation and social security	**6,815**	-	5,472	-
Other creditors	**434,149**	-	385,927	-
Accruals and deferred income:				
Transportation	**29,652**	-	17,602	-
Other	**198,322**	**2,236**	171,900	5,176
	2,102,879	**2,236**	1,819,395	5,176

15. Provisions for liabilities and charges

	As at 1 Jan 2003 £000	Profit and loss charge/ (credit) £000	Utilised £000	Released £000	As at 31 Dec 2003 £000
Sales contract loss and renegotiation provisions	218,959	14,292	(14,807)	(51,477)	**166,967**
Pension and other retirement benefits	30,211	20,895	(32,167)	-	**18,939**
Long Term Incentive Scheme	10,013	2,257	(145)	-	**12,125**
Employee Sharesave Scheme	2,903	(2,328)	-	-	**575**
	262,086	35,116	(47,119)	(51,477)	**198,606**

15. Provisions for liabilities and charges (continued)

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 long term sales contracts, which at inception are onerous, based on the difference between contracted sales prices and the expected weighted average cost of gas. These contracts terminate between 2005 and 2006. The profit and loss charge represents £14 million of notional interest (2002: £14 million).

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 represented the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008.

Pension and other retirement benefits

This provision includes the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

16. Called up share capital

	2003 £000	2002 £000
Authorised		
1,800,000,100 ordinary shares of £1 each	**1,800,000**	1,800,000
Called up, allotted and fully paid		
800,000,100 ordinary shares of £1 each	**800,000**	800,000

17. Reconciliation of movements in reserves

	Share Premium £000	**Profit and Loss £000**
As at 1 January 2003	447,162	(280,324)
Loss for the financial year	-	(58,457)
As at 31 December 2003	**447,162**	**(338,781)**

18. Reconciliation of movements in equity shareholder funds

	2003 £000	2002 £000
Equity shareholder funds as at 1 January	**966,838**	988,779
Loss on ordinary activities after taxation for the financial year	**(58,457)**	(21,941)
Equity shareholder funds as at 31 December	**908,381**	966,838

19. Commitments and contingencies

	2003	2002
	£000	£000
a) Capital commitments		
Contracted for but not provided	**45,698**	76,188

	2003	2002
	£000	£000
b) Lease commitments		
The Company had the following annual commitments under non-cancellable operating leases:		
Operating leases which expire:		
- in the second to fifth year inclusive	**6,740**	6,990
	6,740	6,990

There were no operating leases relating to land and buildings (2002: £nil).

c) Pensions

The majority of the Company's UK employees as at 31 December 2003 were members of two of the four main schemes in the Centrica plc Group; the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These schemes 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 SSAP24 and FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes during the year were £32,166,663 (2002: £27,764,545). The amount outstanding at the balance sheet date was £5,729 (2002: £5,948). The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £571 million (£398 million net of deferred tax) (2002: £451 million (£316 million net of deferred tax)). Further details of this valuation can be found in the annual report of Centrica plc.

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 2001. Since then, the Company has continued to take actuarial advice and has increased its contribution levels on 1 January 2002 and on 1 September 2003.

Notes to the accounts (continued)

19. Commitments and contingencies (continued)

d) Guarantees and indemnities

Centrica plc has £915 million of bilateral credit facilities (2002: £1 billion). 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 it has guaranteed the overdrafts of certain other group undertakings. At 31 December 2003, the Company's exposure under this guarantee was £13 million (2002: £18 million).

e) Gas purchase contracts

The Company is contracted to purchase 76 billion therms of gas (2002: 65 billion therms) in Britain under long term contracts. The significant increase on last year is largely due to the addition of a contract agreed in 2002 with Statoil to procure 17 billion therms over 10 years from 1 July 2005. Last year this contract was not included in the numbers below as it was conditional, however during 2003 it became unconditional. The gas contract commitments include several contracts with prices linked to the market price for gas and legacy contracts at prices, mainly determined by various baskets of indices including oil prices and general inflation, which may exceed market gas prices from time to time.

The total volume of gas to be taken under these long term contracts depends upon a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. Based upon the minimum volume of gas that the Company is contracted to pay for in any year, the profile of the contract commitments (excluding purchases from Hydrocarbon Resources Limited) is estimated as follows:

	2003 million therms	2002 million therms
Within five years	**43,500**	45,900
After five years	**32,400**	19,200
	75,900	65,100

The directors do not consider it feasible to estimate reliably the actual future cost of committed gas purchases as the Company's weighted average cost of gas from these contracts is subject to a variety of indexation bases. The Company's average cost of gas from its contracts with third parties for the year ended 31 December 2003 was 20.8 pence per therm (2002: 19.6 pence per therm).

The commitment profile on this same basis is set out below:

	2003 £m	2002 £m
Within one year	**2,200**	1,900
Between one and five years	**6,800**	7,000
After five years	**6,700**	3,800
	15,700	12,700

Notes to the accounts (continued)

19. Commitments and contingencies (continued)

e) Gas purchase contracts (continued)

As reported in 2002, the Company entered into a contract with Gasunie to purchase an additional 27 billion therms over 10 years from 1 April 2005. This contract remains conditional and is therefore not included in the numbers above.

f) Litigation

The Company has a number of outstanding disputes arising out of its normal activities, for which appropriate provisions have been made.

20. Post balance sheet events

On 3 June 2004 the Centrica Group announced an acceleration of the transformation process in the British Gas Brand, with proposals to change part of the organisational structure. These changes may result in a number of job losses in British Gas Trading Limited.

21. Ultimate parent company

Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the Company. Copies of the Annual Report of Centrica plc may be obtained from the Company Secretary, Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.

The immediate parent company is GB Gas Holdings Limited, a wholly owned subsidiary of Centrica plc.