British Gas Trading Limited

Annual report

for the year ended 31 December 2002

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Registered No : 3078711

Directors' report

The directors present their report and audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2002.

Principal activities

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

Business review

Performance was driven by improved gas margins and continuing growth in electricity. This was partially offset by £26 million (2001: £9 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. The Company withdrew from the liquified petroleum gas (LPG) business.

Financial results

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

The Company recorded an operating profit on ordinary activities (before exceptional charges) of £19 million for the year (2001: £369 million loss).

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

In August, Electricity Direct (UK) Limited, the UK's largest independent commercial electricity supplier, was acquired for £50 million.

In November, the Company's liquefied petroleum gas (LPG) business was sold for £38 million.

Post balance sheet events

Details of post balance sheet events are disclosed in note 23 to the financial statements on page 24.

Dividends and transfers to reserves

The directors do not recommend the payment of a final dividend for the year ended 31 December 2002 (2001: £nil). In 2002 £22 million was transferred from reserves (2001: £389 million transferred from reserves).

Directors

The following served as directors during the year:

R A Gardner

M R Alexander

M S Clare

P K Bentley

Directors' report (continued)

It was announced on the 4 February 2003 that, by agreement of the Company, Mike Alexander would be retiring from the board with effect from 28 February 2003.

Directors' interests

At no time did any director holding office at 31 December 2002 have any interest in the shares of the Company (2001: Nil) or any other company in the Centrica plc Group except for interests in shares and options over shares of the ultimate parent company, Centrica plc, details of which can be found in the 2002 Annual Report of Centrica plc.

There were no contracts of significance subsisting during or at the end of the financial period to which the Company, or any of its subsidiaries and associated undertakings is a party and in which any director is or was materially interested.

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 2002 is calculated at 32 days (2001: 24 days).

Employment policies

The Company employed an average of 9,211 people, all employed in the United Kingdom, during 2002 (2001: 7,666).

The Company is committed to pursuing equality and diversity in all its employment activities, with particular emphasis on recruitment and selection, training and development, appraisal and promotion. By supporting and encouraging the diversity of our people, we aim to increase employee motivation and provide better service to our diverse customer base in the community at large. This approach is reflected in our employee policies and procedures and we are proud to offer a range of benefits that go beyond the requirements of legislation. For example, we have a comprehensive 'carers policy', which enables employees to balance the demands of long term caring commitments with the requirements of their job.

The Company continues to support the Government's New Deal for people with disabilities, the aim of which is to recruit unemployed disabled people and carers into the Company's operations.

We comply with the national gender pay policies and are committed to implementing them through a programme of equal pay audits.

Employee communications

Employees are regularly provided with a wide range of information concerning the direction and performance of the Company by means of employee briefing arrangements such as team briefs, intranet, CDs and company magazines.

Political and charitable donations

Charitable donations during the year amounted to £241,043 (2001: £nil).

Directors' report (continued)

Directors' and officers' liability

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

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003 PricewaterhouseCoopers resigned on 31 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP as auditors.

The Company has passed an elective resolution to dispense with the need to hold Annual General Meetings and the laying of accounts before them and with the need to reappoint auditors' annually.

By order of the Board

Ian Ritchie

For and on behalf of Centrica Secretaries Limited

Company Secretary

7 July 2003

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire SL4 5GD

Statement of directors' responsibilities for preparing the financial statements

The directors are required by the Companies Act 1985 to prepare financial statements for each year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for the financial year.

The directors consider that in preparing the financial statements on pages 7 to 25, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgments and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

The directors have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enable them to ensure that the financial statements comply with the Companies Act 1985.

The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditors' report to the shareholder 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 have been 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 2002 and of the loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP   11 July 2003

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

Profit and Loss Account
For the year ended 31 December

	Notes	2002 £000	2001 £000
Turnover – continuing operations		7,533,628	7,313,253
- discontinued operations		46,182	78,404
Turnover	2	**7,579,810**	**7,391,657**
Cost of sales – continuing operations		(6,570,737)	(6,802,822)
- discontinued operations		(20,093)	(45,087)
Cost of sales		**(6,590,830)**	**(6,847,909)**
Gross profit - continuing operations		962,891	510,431
- discontinued operations		26,089	33,317
Gross profit		**988,980**	**543,748**
Administrative expenses			
- continuing operations before exceptional charges		(949,830)	(794,140)
- exceptional charges		-	(15,000)
- continuing operations		(949,830)	(809,140)
- discontinued operations		(20,495)	(118,835)
Administrative expenses including exceptional charges		(970,325)	(927,975)
Operating profit/(loss) – continuing operations		13,061	(298,709)
- discontinued operations		5,594	(85,518)
Operating profit/(loss)	3	**18,655**	**(384,227)**

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

	Notes	2002 £000	2001 £000
Loss on disposal of business	7	(8,051)	-
Net interest	5	5,980	(6,273)
Profit/(Loss) on ordinary activities before taxation		**16,584**	**(390,500)**
Tax (charge)/credit on profit/(loss) on ordinary activities	6	(38,525)	1,352
Loss on ordinary activities after taxation for the financial year		**(21,941)**	**(389,148)**
Dividends		-	-
Retained loss for the year		**(21,941)**	**(389,148)**

There are no differences between the profit/(loss) 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 profit for the financial year.

The notes on pages 10 to 25 form part of these financial statements.

Balance Sheet
As at 31 December

	Notes	2002 £000	2001 £000
Fixed assets			
Intangible assets	8	52,848	52,292
Tangible assets	9	312,856	191,815
Investments	10	1,297,023	1,247,162
		1,662,727	1,491,269
Current assets			
Stocks	11	64,495	78,818
Debtors (amounts falling due within one year)	12	1,209,024	1,160,466
Debtors (amounts falling due after more than one year)	12	113,277	155,352
Cash at bank and in hand		3,972	4,087
		1,390,768	1,398,723
Creditors (amounts falling due within one year)			
Obligations under finance leases	22	-	(617)
Other creditors	14	(1,819,395)	(1,597,108)
		(1,819,395)	(1,597,725)
Net current (liabilities)		(428,627)	(199,002)
Total assets less current liabilities		1,234,100	1,292,267
Creditors (amounts falling due after more than one year)			
Obligations under finance leases	22	-	(1,635)
Other creditors	14	(5,176)	(6,321)
		(5,176)	(7,956)
Provisions for liabilities and charges	15	(262,086)	(295,532)
Net assets		966,838	988,779
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	(280,324)	(258,383)
Shareholder funds	18	966,838	988,779

The financial statements were approved by the Board of Directors on 7 July 2003 and were signed on its behalf by:

P K Bentley
Director

The notes on pages 10 to 25 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 supplies 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 schemes 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 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 taken to 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 disposed, 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, payments on account, 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 actvities that are necessary to prepare the asset for use are complete. Depreciation commences at the point of commercial deployment.

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:

Freehold and leasehold buildings	up to 50 years
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 as incurred.

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. 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.

Notes to the accounts (continued)

2. Segmental analysis

Included within turnover was £7,580 million (2001: £7,367 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 profit of £19 million in 2002 (2001: £306 million loss) and net assets of £967 million at 31 December 2002 (2001: £989 million net assets).

The Company disposed of its liquid petroleum gas business, British Gas LPG on 30 November 2002 and consequently the segment has been treated as discontinued. On 30 September 2001 the telecommunications business was transferred to Centrica Telecommunications Limited and consequently the segment has been treated as discontinued for 2001.

Discontinued operations:	2002 LPG £000	2001 LPG £000	2001 Telecoms £000	2001 Total £000
Turnover	46,182	54,075	24,329	78,404
Cost of sales	(20,093)	(27,217)	(17,870)	(45,087)
Gross profit	26,089	26,858	6,459	33,317
Administrative expenses	(20,495)	(34,261)	(84,574)	(118,835)
Operating profit/loss	5,594	(7,403)	(78,115)	(85,518)

3. Operating profit/(loss)

	2002 £000	2001 £000
Operating profit/(loss) is stated after charging:		
Amortisation of goodwill	4,068	640
Depreciation:		
Owned assets	40,427	41,499
Leased assets	575	594
Operating lease rentals:		
Plant and machinery	-	-
Other	6,990	6,990
Auditors' remuneration:		
Statutory audit	362	433
Other	541	265
Exceptional charges :		
Impairment of tangible fixed assets	-	5,800
Impairment of intangible fixed assets	-	2,200
Enron market loss provision	-	7,000

Notes to the accounts (continued)

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 2002 Annual Report and in aggregate were £626,000 (Mike Alexander 2001: £506,000).

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 2002 was £74,300 (Mike Alexander 2001: £160,400).

	2002 £000	2001 £000
Staff costs during the year (including directors)		
Wages and salaries	189,750	138,916
Social security costs	14,307	12,053
Other pension costs	18,836	14,928
Long Term Incentive Scheme	3,417	3,134
Employee Profit Sharing Scheme	-	2,579
Redundancy costs	909	15
Employee Sharesave Scheme	(2,337)	1,118
	224,882	172,743

Average number of employees during the year

The average number of employees, all employed in the United Kingdom, during the year was 9,211 compared to 7,666 for 2001. All employees were administrative and sales staff.

5. Net interest

	2002 £000	2001 £000
Interest receivable	21,992	21,193
Interest payable		
Interest payable on bank loans and overdrafts	(1,339)	(647)
Interest payable to group companies	-	(11,584)
Finance lease charges	(352)	(212)
Notional interest arising on discounted items	(14,321)	(15,023)
	(16,012)	(27,466)
Net interest receivable/(payable)	5,980	(6,273)

Notes to the accounts (continued)

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

	2002 £000	2001 £000
Total current tax	-	-
Deferred tax:		
Origination and reversal of timing differences	38,525	(1,352)
Total tax on profit/(loss) on ordinary activities	38,525	(1,352)

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:

	2002 £000	2001 £000
Profit/(loss) on ordinary activities before tax	16,584	(390,500)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2001: 30%)	4,976	(117,150)
Effects of:		
Expenses not deductible for tax purposes	79,644	103,449
Utilisation of timing differences including losses	(64,373)	(19,210)
Capital allowances in excess of depreciation	(20,247)	10,605
Group relief	-	22,306
	-	-

7. Loss on disposal of liquefied petroleum gas (LPG) business

During the year the Company recognised a £8,051k loss on disposal of the LPG business. The loss included £3,437k relating to the write-off of unamortised goodwill, further information of which is provided in note 20.

Notes to the accounts (continued)

8. Intangible fixed assets

	Note	Goodwill £000
Cost		
At 1 January 2002		55,399
Fair value Adjustment	21	8,061
Disposal	20	(6,498)
At 31 December 2002		56,962
Amortisation		
At 1 January 2002		(3,107)
Charge for the year		(4,068)
Disposal (note 20)		3,061
At 31 December 2002		(4,114)
Net book value		
At 31 December 2002		52,848
At 31 December 2001		52,292

9. Tangible fixed assets

	Land and buildings £000	Plant and Machinery £000	Equipment and vehicles £000	Total £000
Cost				
At 1 January 2002	460	73,390	290,093	363,943
Additions	1,030	5,319	198,127	204,476
Disposals	(1,490)	(67,669)	(19,570)	(88,729)
At 31 December 2002	-	11,040	468,650	479,690
Accumulated depreciation				
At 1 January 2002	(173)	(37,088)	(134,867)	(172,128)
Charge for the year	(1,088)	(4,125)	(35,789)	(41,002)
Disposals	1,261	34,370	10,665	46,296
At 31 December 2002	-	(6,843)	(159,991)	(166,834)
Net book value				
At 31 December 2002	-	4,197	308,659	312,856
At 31 December 2001	287	36,302	155,226	191,815

The historical cost of assets held under finance leases as at 31 December 2002 was £67,422 (2001: £4,778,565). The associated accumulated depreciation was £67,422 (2001: £2,092,247). The assets held under finance leases are motor vehicles.

Notes to the accounts (continued)

10. Fixed asset investments

	Note	Shares in subsidiary £000
Cost and net book value		
At 31 December 2001		1,247,162
Additions - Electricity Direct Limited	19	49,861
At 31 December 2002		1,297,023

Interests in subsidiaries

As at 31 December 2002 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 (2001: £nil) was received from Hydrocarbon Resources Limited or Electricity Direct (UK) Limited during the year ended 31 December 2002.

11. Stocks

	2002 £000	2001 £000
Gas in storage	64,495	78,364
Other raw materials and consumables	-	77
Finished goods and goods for resale	-	377
	64,495	78,818

Notes to the accounts (continued)

12. Debtors

	2002 Within one year £000	2002 After more than one year £000	2001 Within one year £000	2001 After more than one year £000
Trade debtors	346,197	-	125,944	-
Accrued energy income	717,644	-	873,111	-
Amounts owed by group undertakings	7,303	28,750	2,463	33,551
Deferred corporation tax	-	43,959	-	82,484
Other debtors	98,204	40,221	87,329	37,197
Prepayments and accrued income	39,676	347	71,619	2,120
	1,209,024	113,277	1,160,466	155,352

13. Deferred taxation

Deferred tax assets comprise:	Amounts provided		Amounts unrecognised	
	2002 £000	2001 £000	2002 £000	2001 £000
Deferred corporation tax				
- accelerated capital allowances	-	27,416	3,267	45,252
- other timing differences	43,959	55,068	58,632	55,903
	43,959	82,484	61,899	101,155

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)

14. Other creditors

	2002 Within one year £000	2002 After more than one year £000	2001 Within one year £000	2001 After more than one year £000
Trade creditors	424,542	-	443,057	-
Amounts owed to group undertakings	813,952	-	551,705	-
Taxation and social security	5,472	-	3,714	-
Other creditors	385,927	-	288,985	-
Accruals and deferred income:				
Transportation	17,602	-	182,561	-
Other	171,900	5,176	127,086	6,321
	1,819,395	5,176	1,597,108	6,321

15. Provisions for liabilities and charges

	As at 1 Jan 2002 £000	Profit and loss charge/ (credit) £000	Utilised £000	As at 31 Dec 2002 £000
Sales contract loss and renegotiation provisions	227,738	14,321	(23,100)	218,959
Pension costs	39,140	18,836	(27,765)	30,211
Long Term Incentive Scheme	13,207	3,417	(6,611)	10,013
Employee Sharesave Scheme	15,447	(2,337)	(10,207)	2,903
	295,532	34,237	(67,683)	262,086

Sales contract loss and renegotiation provisions

The sales contract loss provision represents the net present cost, using a risk-free discount rate, of expected losses on onerous long-term sales contracts, based on the difference between the contracted sales price and the expected weighted average cost of gas. These contracts terminate between 2005 and 2006. The profit & loss charge included £14 million of notional interest (2001: £15 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 renegotiation provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, and are due for settlement in periods between years 2003 and 2008.

Pension costs

The pension provision represents 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.

Notes to the accounts (continued)

16. Called up share capital

	2002 £000	2001 £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 2002	447,162	(258,383)
Loss for the financial year	-	(21,941)
As at 31 December 2002	447,162	(280,324)

18. Reconciliation of movements in shareholder funds

	2002 £000	2001 £000
Shareholder funds as at 1 January	988,779	1,377,927
Loss on ordinary activities after taxation for the financial year	(21,941)	(389,148)
Shareholder funds as at 31 December	966,838	988,779

Notes to the accounts (continued)

19. Acquisitions

On 5 August 2002 the Company acquired the entire share capital of Electricity Direct (UK) Ltd for a consideration of £50m. The consideration comprises £38m cash consideration and £12m contingent consideration.

Contingent consideration comprises amounts paid but held in escrow. The calculation of final payments from escrow to the vendors, or repayments to the Company, is contingent upon verification of certain working capital balances acquired. The final payment is expected to be between £nil and £12 million.

20. Disposals

The Company disposed of its liquid petroleum gas business, British Gas LPG on 29 November 2002. The analysis of the assets and liabilities sold and consideration received is given below:

	£000
Tangible fixed assets	37,036
Stock	1,214
Debtors (amounts falling due within one year)	7,220
Cash at bank and in hand	148
Obligations under finance leases	(1,699)
Creditors (amounts falling due within one year)	(1,632)
Creditors (amounts falling due after one year)	(1,012)
Net assets sold	41,275
Goodwill sold	3,437
Costs incurred associated with disposal	889
Loss arising on disposal	(8,051)
Cash consideration received	37,550

The results of LPG have been classified as discontinued operations.

Notes to the accounts (continued)

21. Fair value adjustment

A review of the fair value of the assets aquired from Enron Direct Limited in 2001 was carried out 12 months after the initial acquisition and the following adjustments were made in 2002 to the provisional fair value adjustments made in 2001. This was as a result of a final review of bad debt provisioning and valuation of unbilled debtor balances;

	Book value	2001 Fair value adjustment	2002 Fair value adjustment	Fair value
	£000	£000	£000	£000
Book value and fair value of assets acquired				
Tangible fixed assets	1,189	-	-	1,189
Debtors (amounts falling due within one year)	70,215	(22,215)	(8,061)	39,939
Net assets acquired	71,404	(22,215)	(8,061)	41,128
Goodwill arising				57,029
Consideration:				
Cash				98,157

22. Commitments and contingencies

a) Capital commitments	2002 £000	2001 £000
Contracted for but not provided	76,188	6,273

b) Lease commitments	2002 £000	2001 £000
Finance lease obligations are repayable as follows:		
Within 1 year	-	617
Within 1 to 5 years	-	1,635
	-	2,252

There were no finance leases entered into, but commencing after 31 December 2002 (2001: £nil).

Notes to the accounts (continued)

22. Commitments and contingencies (continued)

	2002	2001
	£000	£000
The Company had the following operating lease commitments:		
Expiring within 1 to 5 years	6,990	6,990

There were no operating leases relating to land and buildings (2001: £nil).

c) Pensions

The majority of the Company's UK employees as at 31 December 2002 were members of two of the four main schemes in the Centrica plc Group; the Centrica Staff Pension Scheme and the Centrica Management Scheme.

These schemes have been treated as 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 FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes during the year were £27,764,545 (2001: £5,854,000). The amount outstanding at the balance sheet date was £5,948 (2001: £nil). 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, shows a total deficit of £451 million (£316 million net of deferred tax) (2001: £250m (£176m 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 formal triennial funding valuations, the last of which was as at 31 March 2001. As at 1 January 2002 the Company increased its contribution rates to the schemes on the basis of actuarial advice. Since then, the Company has maintained its current contribution levels.

d) Guarantees and indemnities

Centrica plc has £1 billion of bilateral credit facilities (2001: £935 million). The Company has 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 2002, the Company's exposure under this guarantee was £18 million (2001: £2 million).

e) Gas purchase contracts

The Company is contracted to purchase 65 billion therms of gas (2001: 46 billion therms) in Great Britain under long term contracts. The significant increase on last year is largely due to a number of contracts that have recently been entered into where the price is linked to the market price for gas. A proportion of this gas (37 billion therms) however relates to 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. Whilst there remains uncertainty regarding future prices and market share, in the opinion of the directors, no general provision for onerous contract losses is required.

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

Notes to the accounts (continued)

22. Commitments and contingencies (continued)

e) Gas purchase contracts (continued)

the contract commitments (excluding purchases from Hydrocarbon Resources Limited) is estimated as follows:

	2002 million therms	2001 million therms
Within five years	45,900	29,900
After five years	19,200	15,900
	65,100	45,800

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 long term contracts for the year ended 31 December 2002 was 19.6 pence per therm (2001: 19.9 pence per therm. This compares to 20.8 pence per therm being the weighted average cost for the three month period ending December 2001 which was used to estimate the financial commitment in 2001). Applying this value would imply a Company financial commitment of approximately £12.7 billion (2001: £9.5 billion as previously stated).

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

	2002 £m	2001 £m
Within one year	1,900	1,900
Between one and five years	7,000	4,300
After five years	3,800	3,300
	12,700	9,500

In addition, the Company has entered into two new contracts to purchase significant additional volumes of gas at market prices from Statoil (17 billion therms over 10 years from 1 July 2005) and Gasunie (27 billion therms over 10 years from 1 April 2005). Both these contracts remain conditional at this stage and so are excluded from 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.

23. Post balance sheet events

On 7 February 2003 the Company announced a series of four year electricity purchase contracts entered into with British Energy Power and Energy Trading Limited, a subsidiary of British Energy plc, for the purchase of 38TWh of power, amounting to 20% of the Company's electricity requirements over the period. More than half of the electricity purchased will be at a fixed price the remainder being linked to future electricity market prices.

Notes to the accounts (continued)

24. 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.