

**BRITISH GAS TRADING LIMITED**

**Annual Report**

**For the Year Ended**

**31 December 2001**



**ANNUAL REPORT FOR THE YEAR ENDED 31 DECEMBER 2001**

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## DIRECTORS' REPORT

The directors present their report and audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2001.

### Principal activities

The principal activity of the Company was the provision of gas and electricity to homes and businesses in Great Britain. In September 2000 the Company launched its telecommunications business and on 1 October 2001 this business was transferred to Centrica Telecommunications Limited. In December 2001 the Company acquired the energy supply business of Enron Direct.

### Financial results and business review

The results of the Company are set out on pages 8 and 9.

The Company recorded an operating loss on ordinary activities (before exceptional charges) of £369 million for the year (2000: £37 million loss). Margins were under pressure with the weighted average cost of gas increasing by 25% from 2000 to 2001. The net effect of investment in the telecommunications business, including marketing and customer acquisition costs, was a loss of £78 million (2000: £49 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.

### Dividends and transfers to reserves

The directors do not recommend the payment of a final dividend for the year ended 31 December 2001 (2000: £1,000 million interim dividend). In 2001 £389 million was transferred from reserves (2000 as restated: £6 million transferred to reserves).

### Creditor payment policy

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

- i) agree the terms of payment at the commencement of business with that 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 2001 is calculated at 24 days (2000: 33 days).

### Employment policies

The Company is committed to pursuing an active Equal Opportunities policy covering recruitment and selection, training and development, appraisal and promotion. The Company recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration is given to the retention of staff who become disabled during employment.

## DIRECTORS' REPORT

### Employee communications

The Company is committed to effective communications, which it maintains through briefing sessions and company magazines. Formal communications with trade unions take place through regular meetings between representatives from the Company and trade unions. The Company has procedures for the timely and accurate communication of financial results and other significant business issues to its employees.

### Directors

The following served as directors during the year:

R A Gardner

M R Alexander

M S Clare

P K Bentley

### Directors' interests

At no time did any director holding office on 31 December 2001 have any interest in the shares or debentures of the Company or any other company or associated company of 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 2001 Annual Report of Centrica plc.

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

## DIRECTORS' REPORT

### Directors' and officers' liability


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

### Auditors

PricewaterhouseCoopers have expressed their willingness to continue in office 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  
Centrica Secretaries Limited

Company Secretary

22 October 2002

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 are required to prepare the financial statements on a going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors consider that in preparing the financial statements on pages 8 to 24 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all accounting standards which they consider to be applicable have been followed.

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 SHAREHOLDERS OF BRITISH GAS TRADING LIMITED**

We have audited the financial statements of British Gas Trading Limited for the year ended 31 December 2001 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the historical cost convention and the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the statement of directors' responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards.

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 with the company 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.

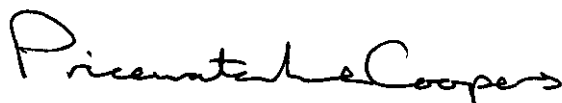
### **Basis of audit opinion**

We conducted our audit in accordance with United Kingdom 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 as at 31 December 2001 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

22 October 2002

**PROFIT AND LOSS ACCOUNT**  
**For the year ended 31 December 2001**

	Notes	2001 £000	2000 £000 as restated
Turnover - continuing operations before acquisitions		7,339,396	6,579,985
- acquisitions		27,932	-
- continuing operations		7,367,328	6,579,985
- discontinued operations		24,329	1,153
<b>Turnover</b>	<b>3</b>	<b>7,391,657</b>	<b>6,581,138</b>
Cost of sales - continuing operations before acquisitions		(6,803,665)	(5,803,131)
- acquisitions		(26,374)	-
- continuing operations		(6,830,039)	(5,803,131)
- discontinued operations		(17,870)	(1,102)
<b>Cost of sales</b>		<b>(6,847,909)</b>	<b>(5,804,233)</b>
Gross profit - continuing operations before acquisitions		535,731	776,854
- acquisitions		1,558	-
- continuing operations		537,289	776,854
- discontinued operations		6,459	51
<b>Gross profit</b>		<b>543,748</b>	<b>776,905</b>
Administrative expenses			
- continuing operations before acquisitions and exceptional charges		(826,882)	(765,054)
- exceptional charges	<b>8</b>	(15,000)	-
- continuing operations before acquisitions		(841,882)	(765,054)
- acquisitions		(1,519)	-
- continuing operations		(843,401)	(765,054)
- discontinued operations		(84,574)	(48,782)
<b>Administrative expenses including exceptional charges</b>		<b>(927,975)</b>	<b>(813,836)</b>
Operating (loss)/profit - continuing operations before acquisitions		(306,151)	11,800
- acquisitions		39	-
- continuing operations		(306,112)	11,800
- discontinued operations		(78,115)	(48,731)
<b>Operating loss</b>	<b>4</b>	<b>(384,227)</b>	<b>(36,931)</b>



**PROFIT AND LOSS ACCOUNT (continued)**  
**For the year ended 31 December 2001**


	Notes	2001 £000	2000 £000 as restated
Income from fixed asset investments	11	-	1,050,000
Net interest	6	(6,273)	8,253
<b>(Loss)/profit on ordinary activities before taxation</b>		<b>(390,500)</b>	<b>1,021,322</b>
Tax on (loss)/profit on ordinary activities	7	1,352	(15,559)
<b>(Loss)/profit on ordinary activities after taxation for the financial year</b>		<b>(389,148)</b>	<b>1,005,763</b>
Dividends		-	(1,000,000)
<b>Retained (loss)/profit for the year</b>		<b>(389,148)</b>	<b>5,763</b>

The notes on pages 12 to 26 form part of these financial statements.

**BALANCE SHEET**  
**As at 31 December 2001**

	Notes	2001 £000	2000 £000 as restated
<b>Fixed Assets</b>			
Intangible assets	9	52,292	6,164
Tangible assets	10	191,815	170,411
Investments	11	1,247,162	1,247,162
		<u>1,491,269</u>	<u>1,423,737</u>
<b>Current Assets</b>			
Stocks	12	78,818	83,244
Debtors (amounts falling due within one year)	13	1,160,466	1,340,199
Debtors (amounts falling due after more than one year)	13	155,352	159,969
Cash at bank and in hand		4,087	7,324
		<u>1,398,723</u>	<u>1,590,736</u>
<b>Creditors : amounts falling due within one year</b>			
Obligations under finance leases	22	(617)	(704)
Bank overdraft		-	(5,139)
Other creditors	15	(1,597,108)	(1,318,344)
		<u>(1,597,725)</u>	<u>(1,324,187)</u>
<b>Net Current (Liabilities)/Assets</b>		<u>(199,002)</u>	<u>266,549</u>
<b>Total Assets Less Current Liabilities</b>		<u>1,292,267</u>	<u>1,690,286</u>
<b>Creditors : amounts falling due after more than one year</b>			
Obligations under finance leases	22	(1,635)	(2,440)
Other creditors	15	(6,321)	(7,723)
		<u>(7,956)</u>	<u>(10,163)</u>
<b>Provisions For Liabilities and Charges</b>	16	<u>(295,532)</u>	<u>(302,196)</u>
<b>Net Assets</b>		<u>988,779</u>	<u>1,377,927</u>
<b>Capital And Reserves – Equity Interests</b>			
Called up share capital	17	800,000	800,000
Share premium account	18	447,162	447,162
Profit and loss account	18	(258,383)	130,765
<b>Shareholders' Funds</b>	19	<u>988,779</u>	<u>1,377,927</u>

The financial statements were approved by the Board of Directors on 22 October 2002 and were signed on its behalf by:

  
P K Bentley  
Director

The notes on pages 12 to 26 form part of these financial statements.

**STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**  
**For the year ended 31 December 2001**

	Notes	2001 £000	2000 £000 as restated
Retained (loss)/profit for the financial year		(389,148)	5,763
Total recognised gains and losses for the financial year		(389,148)	5,763
Prior year adjustment	2	81,132	
Total gains and losses recognised since last annual report		(308,016)	

## NOTES TO THE FINANCIAL STATEMENTS

## 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. Both Financial Reporting Standard (FRS) 18, Accounting Policies, and FRS 19, Deferred Tax, were adopted in 2001. In accordance with the transitional arrangements of FRS 17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

**Exemptions**

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. In accordance with the transitional arrangements of FRS17, Retirement Benefits, additional disclosures are contained in the notes to the financial statements.

**Turnover**

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 for those customers using historical consumption patterns and is included in accrued energy income within debtors. Turnover represents amounts receivable for goods and services provided in the normal course of business, net of VAT and other sales related taxes.

**Cost of sales**

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

**Long-term incentive schemes**

The cost of potential share awards under the Centrica plc group 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 difference between the contributions 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 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 subsidiary undertaking, 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.

## NOTES TO THE FINANCIAL STATEMENTS (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.

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 and machinery	5 to 20 years
Equipment and vehicles	3 to 6 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.

**Fixed asset investments**

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.

**Pensions**

Pensions are accounted for in accordance with SSAP 24, Pension costs. The company participates in group defined benefit pension schemes. 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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 1. PRINCIPAL ACCOUNTING POLICIES (Continued)

**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 group's taxable profits and its results 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 net 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.

**Employee Sharesave Scheme**

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.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 2. CHANGES IN ACCOUNTING POLICY

The comparative figures have been restated as a result of the implementation of FRS 19, Deferred Tax. The impact of the change in accounting policy is set out below:

	2001 £000	2000 £000
<b>Within the profit and loss account</b>		
Tax (charge)/credit on profit on ordinary activities	1,352	(15,559)
(Loss)/profit on ordinary activities after taxation for the financial year	1,352	(15,559)
<b>Within the balance sheet</b>		
Debtors falling due after one year	82,484	81,132
Profit and loss reserve	82,484	81,132

## 3. SEGMENTAL ANALYSIS

Included within turnover was £7,367 million (2000: £6,580 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 £306 million in 2001 (2000: £12 million profit) and net assets of £989m at 31 December 2001 (2000: £1,375 million net assets).

Included within turnover was £24 million (2000: £1 million) relating to telecommunications. This segment had an operating loss of £78 million in 2001 (2000: £49 million loss) and net assets of £nil at 31 December 2001 (2000: £3 million net assets). On 30 September 2001 this business was transferred to Centrica Telecommunications Limited and consequently the segment has been treated as discontinued.

## 4. OPERATING (LOSS)/PROFIT

	2001 £000	2000 £000
<b>Operating (loss)/profit is stated after charging:</b>		
Amortisation of goodwill	640	255
Depreciation:		
Owned assets	41,499	34,355
Leased assets	594	325
Operating lease rentals:		
Plant and machinery	-	10
Other	6,990	4,761
Euro preparation costs	-	116
Auditors' remuneration:		
Statutory audit	433	447
Other audit	-	30
Other	265	3,346
Exceptional charges (see Note 8):		
Liquid Petroleum Gas asset impairment		
Impairment of tangible fixed assets	5,800	-
Impairment of intangible fixed assets	2,200	-
Enron market loss provision	7,000	-

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 5. DIRECTORS AND EMPLOYEES

## Directors' emoluments

Roy Gardner, Mark Clare and Phillip Bentley received no emoluments in respect of their services to the Company. The emoluments of Mike Alexander, as the highest and only paid director, are fully disclosed in the Centrica plc 2001 Annual Report and in aggregate were £506,000 (2000: £407,000).

Retirement benefits are accruing to the directors under a defined benefit pension scheme. The accrued pension of the highest paid director as at 31 December 2001 was £160,400 (2000: £123,600).

	2001 £000	2000 £000
<b>Staff costs during the year (including directors)</b>		
Wages and salaries	138,916	132,483
Social security costs	12,053	13,688
Other pension costs	14,928	16,021
Long Term Incentive Scheme	3,134	2,535
Employee Profit Sharing Scheme	2,579	3,583
Redundancy costs	15	3,307
Employee Sharesave Scheme	1,118	15,967
	<u>172,743</u>	<u>187,584</u>

## Average number of employees during the year

The average number of employees, all employed in the United Kingdom, during the year was 7,666 compared to 7,265 for 2000.

## 6. NET INTEREST

	2001 £000	2000 £000
<b>Interest receivable</b>	21,193	25,298
<b>Interest payable</b>		
Interest payable on bank loans and overdrafts	(647)	(631)
Interest payable to group companies	(11,584)	(16)
Finance lease charges	(212)	(93)
Notional interest arising on discounted items	(15,023)	(16,305)
	<u>(27,466)</u>	<u>(17,045)</u>
<b>Net interest (payable)/receivable</b>	<u>(6,273)</u>	<u>8,253</u>



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 7. TAX ON LOSS ON ORDINARY ACTIVITIES

	2001 £000	2000 £000 as restated
Total Current Tax	-	-
Deferred Tax:		
Origination and reversal of timing differences	(1,352)	15,559
Total tax on profit on ordinary activities	<u>(1,352)</u>	<u>15,559</u>

The differences between the total current tax shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2001 £000	2000 £000 as restated
(Loss)/profit on ordinary activities before tax	(390,500)	1,021,322
Tax on (loss)/profit on ordinary activities at standard UK Corporation tax rate of 30% (2000: 30%)	(117,150)	306,396
Effects of:		
UK dividends received not subject to corporation tax	-	(315,000)
Expenses not deductible for tax purposes	103,449	86,950
Depreciation in excess of capital allowances	10,605	15,615
Utilisation of tax losses and other short-term timing differences	(19,210)	(100,850)
Group relief surrendered for no consideration	22,306	6,889
	<u>-</u>	<u>-</u>

## 8. EXCEPTIONAL CHARGES

## Energy market losses due to failure of Enron Corporation

The Company has recognised a loss of £7 million arising from the failure of Enron Corporation, a major participant in UK and North American energy markets which has filed for protection from its creditors. This represents the Company's share of market losses under UK energy market balancing arrangements and gas storage contracts.

## Liquid petroleum gas (LPG) cylinder assets

Following a period of difficult trading conditions in the liquid petroleum gas (LPG) cylinder market, fixed assets have been written down by way of an £8 million exceptional charge of which £2 million relates to goodwill.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 9. INTANGIBLE FIXED ASSETS

	Goodwill £000
<b>Cost</b>	
At 1 January 2001	6,431
Acquisition (note 20)	48,968
	<hr/>
At 31 December 2001	55,399
	<hr/>
<b>Amortisation</b>	
At 1 January 2001	(267)
Charge for the year	(640)
Impairment (note 8)	(2,200)
	<hr/>
At 31 December 2001	(3,107)
	<hr/>
<b>Net book value</b>	
At 31 December 2001	52,292
	<hr/> <hr/>
At 31 December 2000	6,164
	<hr/> <hr/>

## 10. TANGIBLE FIXED ASSETS

	Land and buildings £000	Plant and Machinery £000	Equipment and vehicles £000	Total £000
<b>Cost</b>				
At 1 January 2001	462	68,514	234,029	303,005
Additions	2	4,876	90,136	95,014
Acquisition	-	-	1,189	1,189
Transfer to group undertakings	-	-	(35,067)	(35,067)
Disposals	(4)	-	(194)	(198)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	460	73,390	290,093	363,943
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Accumulated depreciation</b>				
At 1 January 2001	(107)	(27,486)	(105,001)	(132,594)
Charge for the year	(70)	(3,802)	(38,221)	(42,093)
Impairment (note 8)	-	(5,800)	-	(5,800)
Transfer to group undertakings	-	-	8,175	8,175
Disposals	4	-	180	184
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2001	(173)	(37,088)	(134,867)	(172,128)
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Net book value</b>				
At 31 December 2001	287	36,302	155,226	191,815
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
At 31 December 2000	355	41,028	129,028	170,411
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

Land and buildings are short leasehold.

The historical cost of assets held under finance leases as at 31 December 2001 was £4,778,565 (2000: £4,599,020). The associated accumulated depreciation was £2,092,247 (2000: £1,498,628). The assets held under finance leases are mainly motor vehicles.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 11. FIXED ASSET INVESTMENTS

	Shares in subsidiary £000
<b>Cost and net book value</b>	
At 31 December 2001 and 31 December 2000	<u>1,247,162</u>

**Interests in subsidiaries**

As at 31 December 2001 the Company had the following interest in the issued share capital of the principal subsidiary undertaking listed below:

Subsidiary undertaking	Business	Country of incorporation	Proportion of nominal value of shares held
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%

**Income from fixed asset investments**

No dividend (2000: £1,050 million) was received from Hydrocarbon Resources Limited during the year ended 31 December 2001.

## 12. STOCKS

	2001 £000	2000 £000
Gas in storage	78,364	74,215
Other raw materials and consumables	77	84
Finished goods and goods for resale	377	8,945
	<u>78,818</u>	<u>83,244</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 13. DEBTORS

	2001 Within one year £000	2001 After more than one year £000	2000 Within one year £000	2000 After more than one year £000 as restated
Trade debtors	125,944	-	128,922	-
Accrued energy income	873,111	-	744,729	-
Amounts owed by group undertakings	2,463	33,551	287,825	35,780
Deferred corporation tax	-	82,484	-	81,132
Other debtors	87,329	37,197	94,422	40,639
Prepayments and accrued income	71,619	2,120	84,301	2,418
	<u>1,160,466</u>	<u>155,352</u>	<u>1,340,199</u>	<u>159,969</u>

## 14. DEFERRED TAXATION

Deferred tax assets / (liabilities) comprise:	Amounts provided		Amounts unrecognised	
	2001 £000	2000 £000 as restated	2001 £000	2000 £000 as restated
Timing differences on:				
Depreciation in excess of capital allowances	27,416	9,948	45,252	55,234
Other timing differences including losses carried forward	55,068	71,184	55,903	93,611
	<u>82,484</u>	<u>81,132</u>	<u>101,155</u>	<u>148,845</u>

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

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 15. OTHER CREDITORS

	2001 Within one year £000	2001 After more than one year £000	2000 Within one year £000	2000 After more than one year £000
Trade creditors	443,057	-	419,706	-
Amounts owed to group undertakings	551,705	-	290,336	-
Taxation and social security	3,714	-	2,711	-
Other creditors	288,985	-	247,277	-
Accruals and deferred income:				
Transportation	182,561	-	197,934	-
Other	127,086	6,321	160,380	7,723
	<u>1,597,108</u>	<u>6,321</u>	<u>1,318,344</u>	<u>7,723</u>

## 16. PROVISIONS FOR LIABILITIES AND CHARGES

	As at 1 Jan 2001 £000	Profit and loss charge £000	Notional interest £000	Utilised £000	Transfer to Group undertakings £000	As at 31 Dec 2001 £000
Sales contract loss and renegotiation provisions	243,402	-	15,023	(30,687)	-	227,738
Pension costs	30,833	9,074	-	-	(767)	39,140
Long Term Incentive Scheme	9,837	3,722	-	-	(352)	13,207
Employee Sharesave Scheme	18,124	1,118	-	(3,795)	-	15,447
	<u>302,196</u>	<u>13,914</u>	<u>15,023</u>	<u>(34,482)</u>	<u>(1,119)</u>	<u>295,532</u>

**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.

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 2002 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 FINANCIAL STATEMENTS (continued)

## 17. CALLED UP SHARE CAPITAL

	2001 £000	2000 £000
<b>Authorised</b>		
1,800,000,100 ordinary shares of £1 each	<u>1,800,000</u>	<u>1,800,000</u>
<b>Called up, allotted and fully paid</b>		
800,000,100 ordinary shares of £1 each	<u>800,000</u>	<u>800,000</u>

## 18. RECONCILIATION OF MOVEMENTS IN RESERVES

	Share premium £000	Profit and loss £000
As at 1 January 2001 as previously stated	447,162	49,633
Prior year adjustment (note 2)	-	81,132
As at 1 January 2001 as restated	<u>447,162</u>	<u>130,765</u>
Loss for the financial year	-	(389,148)
As at 31 December 2001	<u>447,162</u>	<u>(258,383)</u>

## 19. RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	2001 £000	2000 £000 as restated
Shareholders' funds as at 1 January	1,296,795	1,275,473
Prior year adjustment (note 2)	<u>81,132</u>	<u>96,691</u>
Shareholders' funds as at 1 January as restated	1,377,927	1,372,164
(Loss)/profit on ordinary activities after taxation for the financial year	(389,148)	1,005,763
Dividends	-	(1,000,000)
Shareholders' funds as at 31 December	<u>988,779</u>	<u>1,377,927</u>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 20. ACQUISITIONS

The Company acquired the energy supply business and certain assets from the administrator of Enron Direct Limited on 5 December 2001.

Prior to acquisition the business and assets acquired formed part of Enron Direct Limited. In the circumstances it is not practical to provide details of results for financial periods before acquisition and the book value has been assumed to be the face value of the debtors acquired.

The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired. In view of the short time period since acquisition, it has not been feasible to conclude the fair values of assets and liabilities. Accordingly the values stated below are provisional.

Goodwill arising is amortised over 15 years.

The analysis of net assets acquired and the fair value to the Company was as follows:

	Book value	Fair value adjustments	Fair value
	£000	£000	£000
<b>Book value and fair value of assets acquired</b>			
Tangible fixed assets	1,189	-	1,189
Debtors (amounts falling due within one year)	70,215	(22,215)	48,000
	<hr/>	<hr/>	<hr/>
<b>Net assets acquired</b>	71,404	(22,215)	49,189
Goodwill arising			48,968
			<hr/>
<b>Consideration:</b>			
Cash			98,157
			<hr/>

## 21. DISPOSALS

All of the assets and liabilities of the British Gas Communications telecommunications business were transferred at net book value to Centrica Telecommunications Limited on 30 September 2001. The British Gas Communications business has been classified as a discontinued operation in these financial statements.

## 22. COMMITMENTS AND CONTINGENCIES

	2001 £000	2000 £000
<b>a) Capital commitments</b>		
Contracted for but not provided	6,273	2,729
	<hr/>	<hr/>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22. COMMITMENTS AND CONTINGENCIES (continued)

	2001 £000	2000 £000
<b>b) Lease commitments</b>		
Finance lease obligations are repayable as follows:		
Within 1 year	617	704
Within 1 to 5 years	1,635	2,082
After 5 years	-	358
	<u>2,252</u>	<u>3,144</u>

There were no finance leases entered into, but commencing after 31 December 2001 (2000: £nil).

	2001 £000	2000 £000
Operating leases which expire:		
Within 1 to 5 years	<u>6,990</u>	<u>6,990</u>

There were no operating leases relating to land and buildings (2000: £nil).

**c) Pensions and disclosures in accordance with FRS 17**

The majority of the Company's UK employees as at 31 December 2001 were members of two of the four main schemes in the Centrica plc Group; the Centrica Staff Pension Scheme and the Centrica Engineers Pension 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 £5,854,000. The amount outstanding at the balance sheet date was £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, show a total deficit of £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 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 maintained its current contribution levels.

**d) Guarantees and indemnities**

Centrica plc has a £935 million bilateral credit facility (2000: £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 agreement.

The Company is part of a group cross guarantee arrangement whereby it has guaranteed the overdrafts of certain other group undertakings. At 31 December 2001, the Company's exposure under this guarantee was £2 million (2000: £3 million).



## NOTES TO THE FINANCIAL STATEMENTS (continued)

## 22. COMMITMENTS AND CONTINGENCIES (continued)

## e) Gas purchase contracts

The Company is contracted to purchase 46 billion therms of gas (2000: 65 billion therms) in Great Britain under long-term contracts at prices, mainly determined by various baskets of indices, which may exceed market prices from time to time. In the face of full competition in the market for gas, the Company's exposure has over a period of years been reduced by the renegotiation of lower volumes and/or prices under certain contracts and by entering into long-term sales contracts. Since January 1996 these actions, affecting 60 billion therms, have been achieved at a net present cost to the Company of £1,405 million. 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 the contract commitments, after taking account of the renegotiations referred to above (excluding purchases from Hydrocarbon Resources Limited), is estimated as follows:

	2001 million therms	2000 million therms
Within five years	29,900	37,400
After five years	15,900	27,900
	<u>45,800</u>	<u>65,300</u>

The directors do not consider it feasible to estimate the actual future cost of committed gas purchases as the Company's weighted average cost of gas from these contracts is subject to indexation. As a consequence of indexation, the Company's average cost of gas from its long-term contracts for the three month period ended 31 December 2001 was 20.8 pence per therm (three month period ended 31 December 2000 19.5 pence per therm). Applying this value would imply a Company financial commitment of approximately £9.5 billion (2000: £12.4 billion).

The commitment profile is set out below:

	2001 £m	2000 £m
Within one year	1,900	1,900
Between one and five years	4,300	5,200
After five years	3,300	5,300
	<u>9,500</u>	<u>12,400</u>

## f) Litigation

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

**NOTES TO THE FINANCIAL STATEMENTS (continued)**

**23. POST BALANCE SHEET EVENTS**

On 10 June 2002 the Company announced that it had secured its first long-term European gas supply contract with Norwegian gas and oil producer Statoil ASA. Under the 10-year agreement, 5 billion cubic metres of natural gas will be delivered each year. The gas is due to be delivered to the UK from 1 October 2005.

On 25 June 2002 the Company announced that it had reached an agreement with Dutch company N.V. Nederlandse Gasuine ("Gasuine") for the long-term supply of natural gas. Gasuine has been contracted to supply 80 billion cubic metres of gas to the UK over a 10-year period. Depending on the completion of the necessary transportation infrastructure, the gas is expected to come on stream as early as 2005.

On 31 August 2002 the Company acquired the shares of Electricity Direct (UK) Ltd for a consideration of £49.5 million. In addition the Company assumed net debt of £13.5m.

**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.