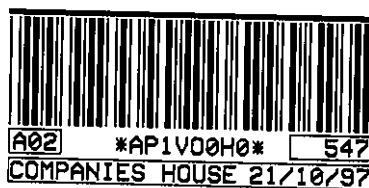


BRITISH GAS TRADING LIMITED

REPORT AND ACCOUNTS

FOR THE PERIOD ENDED

31 DECEMBER 1996



REGISTERED NO: 3078711

British Gas Trading Limited 1996 Report and Accounts

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DIRECTORS' REPORT

The Directors submit their report and the audited accounts of British Gas Trading Limited for the period from 2 January 1996 to 31 December 1996.

Commencement of Trading

On 1 March 1996, pursuant to a Transfer Scheme under the Gas Act 1995, the gas supply and shipping business of British Gas plc was hived-down into British Gas Trading Limited, which is a subsidiary undertaking of GB Gas Holdings Limited (GBGH). British Gas plc was the ultimate parent company of GBGH at that time. British Gas Trading Limited commenced trading on 1 March 1996.

Details of the net assets acquired by British Gas Trading Limited from British Gas plc are set out in note 10.

With effect from 17 February 1997 Centrica plc became the ultimate holding company following the demerger of certain trading businesses from British Gas plc.

Principal Activities

The principal activity of the Company is the supply of gas to residential, commercial and industrial customers.

Financial Results & Business Review

The results of British Gas Trading Limited for the period ended 31 December 1996 are set out on pages 7 to 25.

British Gas Trading Limited was a wholly owned subsidiary undertaking of British Gas plc throughout 1996, and although the gas supply and shipping business was transferred from British Gas plc on 1 March 1996, the accounts have been prepared as if British Gas Trading Limited had owned and controlled that business throughout the period (see note 1(a) to the accounts - basis of preparation).

On 1 July 1996, but principally with economic effect (net of tax) from 1 March 1996, British Gas Exploration & Production Limited transferred its producing interests in the Morecambe gas fields into a wholly owned subsidiary, Hydrocarbon Resources Limited (HRL) and the shares in HRL were transferred to British Gas Trading Limited.

The Company recorded an operating loss on ordinary activities (before exceptional charges) of £268 million for the period to 31 December 1996. The principal reasons for the operating loss were falling gross margins and continued reductions in market share. The gross selling margins have been adversely affected by a reduction in selling prices and increased costs of gas and transportation.

Competition is being gradually introduced into the domestic gas supply market. During 1996 a pilot scheme opening the domestic gas supply market to competition was conducted in the south west of England. It is intended that full competition will be introduced into this market in 1998. Indications from the pilot are that the British Gas brand name has proven robust.

British Gas Trading Limited incurred exceptional charges of £728 million (before taxation) for the period to 31 December 1996 in respect of certain long term gas sales and purchase contracts and restructuring costs.

Domestic Tariff Review.

British Gas Trading Limited and the Director General of Ofgas have agreed in principle a basis of price control which will cover the Company's gas sales to the domestic market from 1 April 1997. The proposed new control is expected to run for a three year period.

Take or Pay Contracts.

With the long-term Take or Pay gas purchase contracts with external producers, British Gas Trading Limited is contracted to purchase gas at higher prices than now prevail in the market. Further explanation is provided in note 20 (d).

Dividends and transfer from reserves

The Directors do not recommend the payment of a dividend for the period ended 31 December 1996. £984 million has been transferred from reserves.

Fixed Assets

Changes in tangible fixed assets are shown in note 8 on page 14.

Policy on the payment of creditors

The Company aims to pay all of its creditors promptly. Special contractual terms apply for gas supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of the payment at the start 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.

Employees

The Company depends on the skills and commitment of its employees in order to achieve its long term objectives. Company staff at all levels are encouraged to make the fullest possible contribution to the success of the company.

Through the use of company magazines and briefing sessions the Company is committed to effective employee communications. 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 significant business issues to its employees.

The Company's recruitment, training and promotion policies have been developed to ensure equal opportunities for all employees regardless of gender, race or disability. All decisions are based on merit.

Share capital

The authorised share capital of the Company, together with details of shares issued, is shown in note 16.

British Gas Trading Limited

The Directors

The following served as Directors during the period:

R A Gardner (Chairman - appointed 19 January 1996)

M R Alexander (appointed 19 January 1996)

M S Clare (appointed 29 August 1996)

G J Bartlett (appointed 19 January 1996, resigned 30 August 1996)

A Garrihy (resigned 19 January 1996)

D W J Patience (resigned 19 January 1996)

Directors' interests

At no time did any Director still holding office on 31 December 1996 have any interest in the shares or debentures of the Company or any other company or associated company of the British Gas group except for interests in shares and options over shares of the ultimate parent company, British Gas plc. On 17 February 1997 as part of the demerger of British Gas plc, British Gas plc changed its name to BG plc and the Company became an indirect wholly owned subsidiary undertaking of Centrica plc. The interests shown below relate to the period during which the Company was a wholly owned subsidiary undertaking of British Gas plc and are therefore interests in British Gas plc (for R A Gardner see the 1996 Annual Report and Accounts of BG plc):

Beneficial Interests	As at 31 December 1996	As at date of appointment
M S Clare		
- Ordinary shares (i)	471	471
- Long term incentive scheme (notional allocation (ii))	12,833	12,833
- Executive option scheme (iii)	49,063	49,063
M R Alexander		
- Ordinary shares (i)	2,034	1,563
- Long term incentive scheme (notional allocation (ii))	30,020	30,020
- Executive option scheme (iii)	103,601	103,601
- Sharesave scheme (iii)	7,252	7,252

- (i) Beneficial interests including shares acquired pursuant to the British Gas Employee Profit Sharing Scheme.
- (ii) Notional allocation of shares made on 13 October 1995. Figures given represent the maximum award possible if performance criteria are met at the end of the performance period (3 or 4 years) and which would not be made until the expiry of the retention period (a further two years).
- (iii) All options were granted under the terms of the ultimate parent company's Savings-related Option Scheme ("Sharesave") and Executive Option Scheme, details of which are given in that company's report and accounts

There were no contracts of significance subsisting 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.

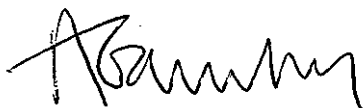
Directors' insurance

The ultimate parent company has maintained insurance cover for all Directors and other officers against liabilities in relation to the Company.

Auditors

Price Waterhouse were appointed as auditors and have expressed their willingness to be re-appointed as auditors of the Company. In accordance with the Companies Act 1985, a resolution proposing the re-appointment of Price Waterhouse as auditors of the Company will be put to the Annual General Meeting, together with an 'elective resolution' to dispense with the need to appoint auditors on an annual basis, as required by Section 384 of the Companies Act. In addition 'elective resolutions', as permitted by Sections 252 and 366A of the Companies Act will be put to the Annual General Meeting to dispense with the holding of annual general meetings and the laying of accounts and reports before them.

This report was approved by the Board on 30 June 1997.



By order of the Board
Anne Garrihy - Secretary
30 June 1997

British Gas Trading Limited
Registration Number: 3078711
Registered Office:
Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING THE FINANCIAL STATEMENTS

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

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 judgements and estimates and all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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.

The Directors, having prepared the financial statements, have requested the Auditors to take whatever steps and to undertake whatever inspection they consider to be appropriate for the purposes of enabling them to give their audit report.

AUDITORS' REPORT TO THE MEMBERS OF BRITISH GAS TRADING LIMITED

We have audited the financial statements on pages 7 to 25 which have been prepared under the historical cost convention and the basis of preparation and accounting policies on pages 9 and 10.

Respective responsibilities of Directors and auditors

As described on page 5, the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of 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 : Unqualified other than as regards omission of 1995 comparatives

As explained in Note 1a), the financial statements have been prepared in accordance with the principles of merger accounting. Until 31 March 1994 the gas supply business was fully integrated within British Gas plc's UK gas business which was managed as one division of British Gas plc. From 1 April 1994 and during 1995 the UK gas business division underwent a restructuring which resulted in the formation, inter alia, of the British Gas Supply business unit. The new business unit developed its own accounting system and segregated the accounting records gradually over the restructuring period.

As a consequence, during 1995 the accounting systems and records of British Gas were not designed to record separately the trading results, assets and liabilities attributable to the gas supply business. Therefore with the exception of tangible fixed assets and provisions for liabilities and charges where appropriate information is available, 1995 comparative amounts are not presented.

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1996, and of its loss for the period then ended and, except for the omission of comparative amounts for the reasons referred to above, have been properly prepared in accordance with the Companies Act 1985.

Price Waterhouse

Price Waterhouse
Chartered Accountants and Registered Auditors
Southwark Towers
32 London Bridge Street
London SE1 9SY

30 June 1997

British Gas Trading
Limited

PROFIT AND LOSS ACCOUNT

	Notes	2 January 1996 to 31 December 1996	
		£000s	£000s
Turnover	2		7,485,856
Cost of sales - pre exceptional charges		(7,069,475)	
- exceptional charges :	5		
Sales contract loss provision		(364,000)	
Renegotiation of gas purchase contracts		(340,668)	
Cost of sales including exceptional charges			(7,774,143)
Gross loss			(288,287)
Administrative expenses - pre exceptional charge		(684,293)	
- exceptional charge :	5		
Restructuring costs		(23,104)	
Administrative expenses including exceptional charge			(707,397)
Operating loss	3		(995,684)
Profit on sale of tangible fixed assets			2,186
Loss on ordinary activities			(993,498)
Net interest	6		45,656
Loss on ordinary activities before taxation			(947,842)
Taxation	7		102,291
Loss on ordinary activities after taxation			(845,551)
Transfer to/(from) reserves:			
Pre-hivedown	17		138,183
Post-hivedown	17		(983,734)
			(845,551)

All results are due solely to continuing operations.

The company had no other recognised gains or losses other than those shown above.

A statement of movements in shareholders' funds is shown in note 18.

The notes on pages 9 to 25 form part of these accounts.

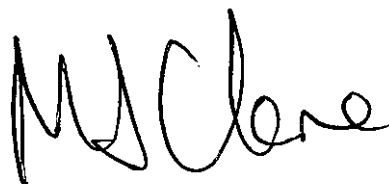
British Gas Trading Limited

BALANCE SHEET

	Notes	As at 31 December 1996 £000
Fixed assets		
Tangible assets	8	75,561
Investments	9	1,258,005
		<hr/> 1,333,566 <hr/>
Current assets		
Stocks	11	71,662
Debtors (amounts falling due within one year)	12	2,383,615
Debtors (amounts falling due after more than one year)	12	319,701
Cash at bank and in hand		33,404
		<hr/> 2,808,382 <hr/>
Creditors (amounts falling due within one year)		
Borrowings	13	(1,265)
Other creditors	14	(1,711,420)
		<hr/> (1,712,685) <hr/>
Net current assets		<hr/> 1,095,697 <hr/>
Total assets less current liabilities		<hr/> 2,429,263 <hr/>
Creditors (amounts falling due after more than one year)		
Borrowings	13	(1,684)
Other creditors	14	(1,409)
		<hr/> (3,093) <hr/>
Provisions for liabilities and charges	15	(113,412)
		<hr/> 2,312,758 <hr/>
Capital and reserves - equity interests		
Called up share capital	16	800,000
Share premium	17	447,162
Profit and loss account	17	1,065,596
	18	<hr/> 2,312,758 <hr/>

The accounts on pages 7 to 25 were approved by the Board of Directors on 30 June 1997 and were signed on its behalf by:

M S Clare - Director



NOTES TO THE ACCOUNTS

1 Principal accounting policies

The accounts have been prepared in accordance with applicable accounting standards under the historical cost convention.

a) Basis of preparation

On 1 March 1996, pursuant to a Transfer Scheme under the Gas Act 1995, British Gas plc ("British Gas") transferred its gas supply and shipping business together with certain assets and liabilities to British Gas Trading Limited.

The accounts have been prepared in accordance with the principles of merger accounting as set out in the group reconstruction provisions of Financial Reporting Standard No 6 "Acquisitions and Mergers". The accounts have therefore been prepared as if British Gas Trading Limited had owned and controlled the business throughout the accounting period. Accordingly, the results of the gas supply business for the period from 2 January 1996 to 31 December 1996 are included in the profit and loss account.

Until 31 March 1994 the gas supply business was fully integrated within British Gas plc's UK gas business which was managed as one division of British Gas plc. From 1 April 1994 and during 1995 the UK gas business division underwent a restructuring which resulted in the formation, inter alia, of the British Gas Supply business unit. The new business unit developed its own accounting system and records gradually over the restructuring period.

As a consequence, during 1995 the accounting systems and records of British Gas were not designed to record separately the trading results, assets and liabilities attributable to the gas supply business. Therefore, with the exception of certain disclosures, 1995 comparative amounts are not presented.

As at 1 January 1996, the last date to which dormant company accounts were prepared for British Gas Trading Limited, the Company had net assets of £2 represented by £2 of ordinary share capital.

b) Exemptions

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited (which was a wholly owned subsidiary undertaking of British Gas plc until 17 February 1997 and from that date onwards a wholly owned subsidiary undertaking of Centrica plc). The Company has taken advantage of the exemptions within Financial Reporting Standard No 1 "Cash Flow Statements" from presenting a cash flow statement; within Financial Reporting Standard No 2 "Accounting for Subsidiary Undertakings" from consolidating its subsidiary undertakings and incorporating the results of its share of associated undertakings; and within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other group companies.

c) Turnover

Turnover comprises the value of gas supplied and includes an assessment of gas supplied to customers between the date of the last meter reading and the period end ('unread gas'). The policy is for meters to be read once every six months and they must be read every two years.

d) Tangible fixed assets

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

Plant and Machinery	up to 40 years
Motor vehicles, office and IT equipment	5 to 6 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

e) Leases

Assets held under finance leases are capitalised and included in tangible fixed assets. The obligations related to finance leases, net of finance charges in respect of future periods, are included within borrowings. 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.

f) Stocks

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

g) Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange.

Income and expenses in foreign currencies are expressed in pounds sterling at exchange rates prevailing when the income is earned or the costs incurred.

h) Take or Pay contracts

Where payments are made to external suppliers under take or pay obligations for gas not taken (see note 20(d)), they are treated as prepayments and included within debtors. Where necessary, a provision is made against these prepayments which represents the Directors' estimate of the difference between the payment for gas not taken and the estimated net realisable value of that gas when taken.

i) Long-term sales contracts

Provision is made for the net present value of any expected losses on long-term gas sales contracts. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

j) Deferred taxation

Deferred taxation, in respect of accelerated capital allowances and other timing differences, is provided only to the extent that it is probable that a liability or asset will crystallise.

k) Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the employees' service. Pension surpluses and deficits are spread over the average expected remaining service lives of employees as a level percentage of payroll.

2 Segmental analysis

Turnover relates to the principal activity of the business and arose wholly in the United Kingdom.

3 Operating loss - continuing operations

Operating loss is stated after charging:

	Notes	2 January 1996 to 31 December 1996 £000
Employee costs including restructuring costs	4(b),5	191,596
Depreciation and amortisation:		
Finance leases		189
Other		15,279
Lease rentals:		
Plant, machinery and equipment		-
Other assets		8,079
Professional fees:		
Auditor's remuneration:		
Statutory audit		309
Other services		330

4 Directors and employees

a) Directors' remuneration

The directors received the following emoluments as directors of the company:

	1996 £000
Salaries and consulting fees	212
Benefits	15
Pension contributions	5
	<hr/> 232 <hr/>

The emoluments excluding pension contributions of all Directors were in the following bands:

	Number
£0 - £5,000	4
£65,001 - £70,000	1
£155,001 - £160,000	1

British Gas Trading Limited

The Chairman received no remuneration in respect of his services to British Gas Trading Limited during the period. The total remuneration of the highest paid Director was £161,811 including pension contributions and £158,572 excluding pension contributions.

b) Employee costs (including exceptional restructuring costs)

	2 January 1996 to 31 December 1996 £000
Wages and salaries	142,082
Social security costs	13,175
Pension costs	13,235
	<hr/> 168,492
Restructuring costs	23,104
	<hr/> 191,596

c) Employee numbers during the period

The average number of employees during the period was 6,404.

5 Exceptional charges

Restructuring costs

The results for the period ended 31 December 1996 include an exceptional charge of £23 million for restructuring costs. This charge, comprising severance and related pension costs, represents British Gas Trading Limited's share of the final phase of the Group's restructuring programme initiated in 1993.

Renegotiation of gas purchase contracts

The results for the period ended 31 December 1996 include an exceptional charge of £341 million for the renegotiation of gas contracts. In December 1996 certain supply contracts with The British Petroleum Company plc and Mobil North Sea Limited were successfully renegotiated, requiring payments totalling £341 million. As a result, the Company's volume and price commitments to purchase gas have been reduced.

Sales contract loss provision

The results for the period ended 31 December 1996 include an exceptional charge of £364 million for contract losses. This reflects the net present value of expected losses resulting from the difference between the expected purchase cost of gas and the selling price over the life of certain new long-term sales contracts and a payment of £260 million to other British Gas plc group companies in consideration for assuming certain gas commitments under a long term gas sales contract. The new sales contracts, which are at current market prices, are well below the Company's weighted average cost of gas but will help to alleviate its gas surplus.

6 Net interest

	2 January 1996 to 31 December 1996 £000
Interest payable:	
On loans wholly repayable within five years	(70)
Interest receivable:	
From third parties	188
From group undertakings	45,038
Income from shares in group undertakings	500
Net Interest receivable	<u>45,656</u>

7 Taxation

	2 January 1996 to 31 December 1996 £000
UK - Payment receivable for group relief	(129,781)
- Deferred taxation	27,390
- Taxation credit on franked investment income	100
Taxation credit	<u>(102,291)</u>

The payment receivable for group relief represents 14.4% of the taxation losses for the period. Of the actual taxation losses of £901 million for the period, £297 million was in respect of ordinary activities and £604 million was in respect of exceptional charges.

Taxation attributable to the profit on sale of tangible fixed assets is not material. The movement in deferred corporation tax is disclosed in note 15.

8 Tangible fixed assets

	Plant and machinery £000	Motor vehicles, office and IT equipment £000	Total £000
Cost			
As at 2 January 1996	20,139	83,570	103,709
Additions	4,130	17,025	21,155
Transfers from group undertakings	-	11,711	11,711
Disposals	(10)	(10,206)	(10,216)
As at 31 December 1996	24,259	102,100	126,359
Accumulated depreciation			
As at 2 January 1996	(6,025)	(29,927)	(35,952)
Transfers from group undertakings	-	(7,148)	(7,148)
Provision for the period	(1,199)	(14,269)	(15,468)
Disposals	-	7,770	7,770
As at 31 December 1996	(7,224)	(43,574)	(50,798)
Net book value			
As at 2 January 1996	14,114	53,643	67,757
As at 31 December 1996	17,035	58,526	75,561

The historical cost of assets held under finance leases as at 31 December 1996 was £3,643,143. The related accumulated depreciation as at 31 December 1996 was £189,000. All assets held under finance leases were motor vehicles.

9 Fixed asset investments

Fixed asset investments represent long-term investments.
Investments are valued at cost.

	Shares in group undertakings £000	Shares in associated undertakings £000	Total £000
As at 2 January 1996	-	-	-
Additions	1,247,162	10,843	1,258,005
As at 31 December 1996	<u>1,247,162</u>	<u>10,843</u>	<u>1,258,005</u>

As at 31 December 1996 the Company had the following interests in the issued share capital of the principal subsidiary and associated undertakings listed below:

Principal subsidiary undertaking	Business	Country of incorporation	Proportion of nominal value of shares held
Hydrocarbon Resources Limited	Gas Production	United Kingdom	100%
<hr/>			
Principal associated undertakings	Business	Country of incorporation	Proportion of nominal value of shares held
Goldbrand Development Limited	Financial Services	United Kingdom	50%
AccuRead Limited	Meter Reading Services	United Kingdom	49%
<hr/>			

10 Business combination

On 1 March 1996 the Company acquired the net assets and operations of the British Gas Supply business unit from British Gas plc for consideration of £2,049 million satisfied by issuing 98 £1 ordinary shares. The book values of the assets and liabilities were:

	£000
Fixed assets	71,838
Stocks	34,102
Debtors	2,554,837
Cash on hand and at bank	(17,965)
Creditors (falling due within one year)	(591,220)
Creditors (falling due after more than one year)	(2,661)
Provisions for liabilities and charges	399
Net assets	2,049,330

The profit for the British Gas Supply business unit in the period from 2 January 1996 to 28 February 1996 was £138,183,000.

11 Stocks

	As at 31 December 1996 £000
Gas in storage	70,568
Other raw materials and consumables	473
Work in progress	79
Finished goods and goods for resale	542
	71,662

12 Debtors

	As at 31 December 1996	
	Within one year £000	After more than one year £000
Amounts falling due		
Trade debtors	479,968	-
Accrued revenue for gas	1,165,421	-
Amounts owed by group undertakings	459,868	25,000
Prepayments and other accrued income	214,000	294,701
Other debtors	64,358	-
	<u>2,383,615</u>	<u>319,701</u>

13 Borrowings

	As at 31 December 1996	
	Within one year £000	After more than one year £000
Amounts falling due		
Obligations under finance leases (i)	<u>1,265</u>	<u>1,684</u>

(i) Represents amounts owed to group undertakings.

Finance lease obligations are repayable as follows:

	£000
Within one year	1,265
Between one and two years	703
Between two and five years	950
After five years	31
	<u>2,949</u>

14 Other creditors

Amounts falling due	As at 31 December 1996	
	Within one year £000	After more than one year £000
Gas levy payable	58,640	-
Trade creditors	527,219	-
Amounts owed to group undertakings	921,417	-
Taxation and social security	3,347	-
Accruals and deferred income	34,415	1,409
Other creditors	166,382	-
	<u>1,711,420</u>	<u>1,409</u>

15 Provisions for liabilities and charges

	As at 2 Jan 1996 £000	Paid £000	Transferred to other group companies £000	Profit and loss charge £000	As at 31 Dec 1996 £ 000
Restructuring costs	132,454	(95,812)	(50,334)	23,104	9,412
Deferred taxation	(27,390)	-	-	27,390	-
Sales contract loss provision	-	-	-	104,000	104,000
	<u>105,064</u>	<u>(95,812)</u>	<u>(50,334)</u>	<u>154,494</u>	<u>113,412</u>

No deferred taxation asset is recognised in respect of current year trading losses as it is the intention that these will all be surrendered via group relief.

The following potential deferred taxation liabilities/(assets) exist but have not been provided for:

	As at 31 December 1996 £000
UK corporation tax (at 33%):	
Accelerated capital allowances	7,058
Other timing differences	(74,185)
	<u>(67,127)</u>

16 Called up share capital

	As at 31 December 1996 £000
Authorised	
1,800,000,100 ordinary shares of £1 each	1,800,000
1 redeemable 'A' share of £1	-
	<hr/> <hr/>
Issued, allotted and fully paid	
800,000,100 ordinary shares of £1 each	800,000
1 redeemable 'A' share of £1	-
	<hr/> <hr/>

On incorporation on 6 July 1995 the Company allotted 2 ordinary shares of £1 each to British Gas plc. On 1 March 1996 under the Transfer Scheme (see note 1(a)) British Gas plc transferred its gas supply business together with certain assets and liabilities to British Gas Trading Limited. In consideration for that transfer the Company issued 98 £1 ordinary shares to British Gas plc.

On 27 June 1996 the Company allotted 1 redeemable 'A' share of £1 each to British Gas plc, which under the rights attributed to that share as set out in the Company's Articles of Association, was the controlling share in the Company within the meaning of S840 ICTA 1988, notwithstanding the ownership of the ordinary shares of £1 each.

On 1 July 1996 the Company issued 800,000,000 ordinary shares of £1 each at par to British Gas plc as consideration for the purchase of Hydrocarbon Resources Limited. These shares were transferred together with British Gas plc's existing holding of 100 ordinary shares of £1 each to GB Gas Holdings Limited on 1 July 1996.

The 1 redeemable 'A' share of £1 each was redeemed by the Company on 17 February 1997 upon the demerger of British Gas plc pursuant to the Company's Articles of Association.

17 Share capital and reserves

	Share capital £000	Share premium £000	Profit & loss £000	Total shareholders' funds £000
Balance at 2 January 1996 (2 £1 ordinary shares)	-	-	-	-
Issue of shares on hivedown (98 £1 ordinary shares)	-	-	-	-
Distributable reserves created on hivedown (see note ii)	-	-	2,049,330	2,049,330
Issue of 1 £1 redeemable 'A' share	-	-	-	-
Issue of shares on acquisition of Hydrocarbon Resources Limited (800,000,000 £1 ordinary shares)	800,000	447,162	-	1,247,162
Loss arising post hivedown (see note i)	-	-	(983,734)	(983,734)
Balance as at 31 December 1996	800,000	447,162	1,065,596	2,312,758

Notes

(i) The retained loss for the period is analysed as follows:

	£000
Total retained loss	(845,551)
Add back post-hivedown loss included in reserves above	983,734
Pre-hivedown profit included in net assets at hivedown	<u>138,183</u>

(ii) Net assets at hivedown amounted to £2,049 million. 98 £1 ordinary shares were issued in consideration for those net assets and in accordance with the statutory Transfer Scheme the difference between the nominal value of these shares and net assets acquired was taken to distributable reserves.

18 Reconciliation of movements in shareholder's funds

	£000
Post hivedown loss	(983,734)
Dividends	-
	<u>(983,734)</u>
Issue of shares on hivedown (98 £1 ordinary shares)	-
Distributable reserves created on hivedown	2,049,330
Issue of share (1 £1 redeemable 'A' share)	-
Issue of shares on acquisition of HRL	1,247,162
	<u>2,312,758</u>
Net addition to shareholders' funds	2,312,758
Opening shareholders' funds at 2 January 1996	-
	<u>2,312,758</u>
Closing shareholders' funds at 31 December 1996	<u>2,312,758</u>

19 Pensions

The majority of the employees in the Company are members of either the British Gas Staff Pension Scheme (staff and management employees) or the British Gas Corporation Pension Scheme (industrial staff) ('the Schemes').

Both Schemes are defined benefit schemes. The Schemes are self-administered and funded to cover future pension liabilities in respect of service up to a balance sheet date. They are subject to independent valuations at least every three years, on the basis of which a qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by employees and proceeds from the Scheme's assets, are sufficient to fund the benefits payable under the Schemes.

The latest independent actuarial valuations of the Schemes were at 31 March 1996. Details of the results of these valuations may be found in the financial statements of BG plc for the year ended 31 December 1996.

The pension charge reflects that proportion of the British Gas Group's pension costs relating to British Gas Trading Limited. The resulting charges for the company approximate to the regular cost of pension benefits for those of its employees who are members of the Schemes.

British Gas Trading Limited employees will continue to participate in the Schemes for approximately one year after the Demerger from the British Gas plc group on 17 February 1997. The Centrica Group will then set up new funded defined benefit arrangements for employees providing identical benefits to the existing Schemes. A share of each Schemes' assets will be transferred to the corresponding new Centrica Scheme including a share of any surpluses (or deficits) relating to Centrica Group employees or former employees electing to transfer.

20 Commitments and contingencies

a) Capital expenditure

Authorised future capital expenditure as at 31 December 1996 was £3,120,000 for which contracts have been placed.

b) Lease commitments

As at 31 December 1996 commitments for the following year under operating leases were as follows (there are no lease commitments relating to land and buildings):

	£000
Expiring:	
Within one year	250
Between one and five years	9,766
	<u>10,016</u>

There are no commitments under finance leases entered into, but for which inception occurs after 31 December 1996.

c) Bank Guarantee

On 3 December 1996, Centrica plc entered into a revolving credit facility of up to £1,000,000,000 with various financial institutions. The Company was one of the guarantors of that facility, such that it has guaranteed, jointly and severally, to pay on demand any sum which Centrica plc does not pay in accordance with the facility agreement.

d) Gas purchase contracts

In order to meet its statutory obligations, both before and after privatisation, British Gas plc ("British Gas") entered into a number of long-term gas purchase contracts with gas producers to secure access to sufficient quantities of gas without committing British Gas to take gas in situations where it could not use it. In exchange for this flexibility, each contract required British Gas to pay for a certain minimum volume of gas each year even if not all of such volume was actually taken in that year. In the majority of these contracts, British Gas was permitted to take a credit for gas that it had paid for but not used in any period and, subject to the achievement of various volume targets within the contracts, to claim the gas at a later date.

Under these contracts, British Gas Trading Limited (following the transfer of most of these contracts to British Gas Trading Limited as a result of the Transfer Scheme) in effect pays for a minimum annual volume of gas under each contract. Any payments for gas not taken, and in relation to which credit for the gas is available, are treated as prepayments. Where necessary, a provision is made against these prepayments, which represents the Directors' estimate of the difference between the payment for the gas not taken and the estimated net realisable value of that gas when taken.

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The majority of these long-term gas purchase contracts are not directly related to the current market price, and prices may be higher or lower than the prevailing market price from time to time. The weighted average of these prices exceeded the average short-term market prices in 1995 and 1996. In 1996 the spot price was volatile and ranged from 10p to 22p per therm and as at 31 December 1996 was approximately 18p to 18.5p per therm.

During the 1990s the volume of gas sold by the British Gas Group fell significantly, principally as a result of a reduction in the Group's share of the commercial and industrial segments of the non-domestic market but also because of a series of unusually warm winters. As a result, at 31 December 1996, the Company had a prepayment (net of provisions) of £508 million in respect of gas that it had paid for but not used and which could be claimed in the future, subject to any restrictions in the relevant contracts providing for the long stop dates by which gas must be taken.

Since January 1996, the Directors have been actively evaluating options for mitigating the adverse impact of these contracts. Options include renegotiating the volume that British Gas Trading Limited is committed to purchase and the price of future gas purchases, and entering into new long-term sales contracts to realise value for gas that British Gas Trading Limited is committed to purchase but which is in excess of the amount necessary to satisfy British Gas Trading Limited's anticipated requirements in the short to medium-term.

In December 1996, British Gas Trading Limited announced the renegotiation of certain long term gas purchase contracts with The British Petroleum Company plc, the British Gas Group and with Mobil North Sea Limited. Under the revised terms of these contracts, British Gas Trading Limited reduced the volume of gas it is committed to purchase (predominantly over the next five years) and reduced the price of further volumes of gas to market levels, to be phased in over a number of years.

The Directors estimate that after adjusting for the volume reductions referred to above, the Company was committed at 30 September 1996 to purchase approximately 137 billion therms of gas. This commitment and the additional analyses in the remainder of this note exclude the Company's commitments under its gas purchase contract with Hydrocarbon Resources Limited, British Gas Trading Limited's wholly owned subsidiary. Amounts payable under the contracts over the next five supply years (to 30 September 2001) stated at today's contracted prices including Gas Levy, giving an approximate weighted average cost of gas of 19 pence per therm, are estimated to be:

	1996 Billion therms	1996 £m
Within one year	14.7	2,800
Between one and five years (i)	53.3	10,100
	<u>68.0</u>	<u>12,900</u>

i) The annual payments will decline gradually over the period.

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Based on the minimum volume of gas that the Company is contracted to pay for in any year, the profile of the contract commitments is estimated by the Directors as follows:

Period	Million therms
Within five years: prior to October 2001	68,000
Over five years: beyond September 2001	69,000

The total volume of gas to be taken under these long-term contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis.

The cost of these commitments depends on further movements in the indices used to calculate the cost of gas. The Directors do not consider it feasible to estimate the actual future cost of committed gas purchases. However, the application of the Company's weighted average cost of gas at 30 September 1996 of approximately 19 pence per therm (including Gas Levy) would imply a financial commitment of approximately £26 billion for the Company.

The Directors expect that British Gas Trading Limited will continue, in the short to medium-term, to make payments for gas that it does not use at the time of payment, but expect that the balance of such prepayments will reduce over time.

These contracts are likely to have a very significant effect on the profitability of British Gas Trading Limited in future years. British Gas Trading Limited's results will be highly sensitive to the price of gas available to competitors (which will affect their selling prices to customers), the movement in purchase indices of purchase costs (which will affect the purchase cost to British Gas Trading Limited), British Gas Trading Limited's future share of the domestic and non-domestic markets and winter weather conditions (which will affect the volumes of gas sold by British Gas Trading Limited), and the outcome of any further negotiations.

In view of the range of potential outcomes of the factors noted above, the eventual total effect of these contracts on the profitability of British Gas Trading Limited over the whole of their lifetime is uncertain. Taking into account the Director's present expectations of future market conditions, no general provision is deemed necessary in respect of the contracts. Provision is made for any long-term sales contracts expected to give rise to a loss and payments made in respect of contract renegotiations are charged to profit on renegotiation.

e) Litigation

Arising out of its normal activities, from time to time, the Company has a number of outstanding disputes, including those with gas producers. After taking account of provisions made, any remaining expected losses are not considered material.

21 Ultimate parent company

At 31 December 1996 the Company was an indirect wholly owned subsidiary undertaking of British Gas plc which is registered in England and Wales. On 17 February 1997, British Gas plc changed its name to BG plc. BG plc is the only company to consolidate the accounts of this company. Copies of the Group accounts of BG plc may be obtained from the Company Secretary, BG plc, Thames Valley Park, 100 Thames Valley Park Drive, Reading, RG6 1PT.

On 17 February 1997 the GB Gas Holdings Limited sub-group of BG plc, within which British Gas Trading Limited is a subsidiary undertaking, was demerged to Centrica plc. Since that date British Gas Trading Limited has been an indirect wholly owned subsidiary undertaking of Centrica plc.