British Gas Trading Limited

Report and Financial Statements
for the year ended 31 December 2007

Registered No 3078711

BRITISH GAS TRADING LIMITED

INDEX

British Gas Trading Limited

Directors' report

The directors present their report and the audited financial statements of British Gas Trading Limited (the "Company") for the year ended 31 December 2007.

Principal activities

The principal activity of the Company is the provision of gas and electricity to homes and businesses in the United Kingdom

Business review

Overall 2007 was a strong year for the Company as we delivered an excellent financial result, with margins above our long-run expectations The commodity price environment during the year was extremely volatile, with a fall in wholesale gas prices early in the year leading to a rapid expansion in margins and enabling the Company to be the first energy supplier to announce reduced prices for customers However, wholesale gas and power prices rose through the second half of the year and squeezed margins in this period Our more competitive pricing and the improvements we have made to customer service helped us to stabilise our customer base in 2007

Operating profit is reduced as a result of an adjustment to prices on a contract to procure gas from the Company's wholly owned subsidiary, Hydrocarbon Resources Limited (HRL) This pricing adjustment reflects results from a historical re-negotiation of the contract such that the Company pays a price to HRL in excess of current market rates It increased the cost of sales by a total of £145 6 million (2006 £236 2 million)

Financial results

The results of the Company are set out on page 9

During the year the Company made an operating profit on ordinary activities of £567 5 million for the year (2006 £619 6 million loss) and a profit for the financial year of £509 4 million (2006 £584 1 million loss)

Dividends

No dividends were paid for the year ended 31 December 2007 (2006 £nil)

Principal risks and uncertainties and key performance indicators (KPI's)

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Centrica plc group ("the Group) and are not managed separately Accordingly, the principal risks and uncertainties of the Group which include those of the Company are discussed on pages 25-27 of the 2007 annual report and accounts of the Group which does not form part of this report

The directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework These objectives and policies are regularly reviewed

Exposure to commodity price risk, counterparty credit risk and liquidity risk arises in the normal course of the Company's business and is managed within parameters set by the directors An energy management team manages energy market price and volumetric risks

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity Commodity price risk arises as a result of contracted or forecast retail sales of gas and electricity not being fully matched by procurement contracts with equivalent volumes, time periods and pricing The risk is primarily that market prices for commodities will move adversely between the times that sales prices are fixed or tariffs are set and the times at which the purchase costs are fixed, thereby potentially reducing expected margins

Principal risks and uncertainties and key performance indicators (KPI's) (continued)
The Company's policy is to hedge a proportion of the exposure for a number of years ahead matched to the underlying profiles of our customer energy requirements

Certain procurement contracts and sales contracts constitute derivative financial instruments The fair values of these contracts are subject to change resulting from changes in commodity prices, except for contracts which are indexed to the market price of the commodity which is the subject of the contract, and for which the price is not fixed in advance of delivery Refer to note 22 for details

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits Exposure to credit risk arises in the normal course of operations as a result of the potential for a customer defaulting on their payable balance In the case of business customers credit risk is managed by checking a company's creditworthiness and financial strength both before commencing to trade and during a business relationship For residential customers, creditworthiness is ascertained normally before commencing to trade by reviewing an appropriate mix of internal and external information An ageing of debtors is monitored and used to manage the exposure to credit risk

Cash forecasts identifying the liquidity requirements of the Company are produced frequently and reviewed regularly to ensure there is sufficient financial headroom for at least a 12 month period

The Company directors monitor performance of individual business units that constitute British Gas Trading Limited Key performance indicators relating to these business units are included in the Centrica annual report and accounts 2007 on pages 16-19

The future
Our critical short-term priority will be continued focus on our service to customers while delivering sustainable returns Longer term, we believe that for all energy suppliers to substantially improve customer service will require nationwide investment in smart metering technology

We will remove an additional £60 million of operating cost and will invest in the British Gas brand to rebuild its relevance to customers not only as a provider of energy but of energy efficency advice and services We are making cost reduction central to our business culture We will continue to identify and re-engineer outdated processes and procedures with the aim of becoming the most efficient energy supplier with the lowest cost per customer

Directors
The following served as directors during the year

P K Bentley
J S Ulrich

On 18 March 2008 P Roberts, C J Stern, M L Turner, C P A Weston and I Wood were appointed as directors of the Company On 31 July 2008 V M Hanafin was appointed and J S Ulrich resigned as director of the Company

Related party transactions

The Company has taken advantage of the exemptions within FRS 8 "Related party disclosures" from disclosure of transactions with other Centrica Group companies, except for any related party disclosures disclosed in the Centrica plc annual report and accounts 2007, there have been no other disclosable related party transactions during the year (2006 £nil) Key management personnel and their families purchase gas and electricity from the Company for domestic purposes on an arm length basis

Creditor payment policy

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

i) agree the terms of payment in advance with the supplier,
ii) ensure that suppliers are aware of the terms of payment, and
iii) pay in accordance with contractual and other legal obligations

The number of days' purchases outstanding as at 31 December 2007 was 37 days (2006 40 days)

Employment policies

During 2007, the Company employed an average of 11,619 people, all employed in the United Kingdom (2006 11,101) The disclosures surrounding the 'Employee Costs' and the 'Average number of employees during the year' (see note 4) relate to Centrica Group employees that work in the British Gas Trading Limited business Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies The directors believe that the disclosures given are the fairest representation of the staff costs for the business

Employees are regularly updated on performance against the Company's strategy There are regular employee surveys, action planning forums and dialogue with representatives of local employee consultative bodies and recognised trade unions to ensure a comprehensive understanding of employees' views The Centrica Group, to which British Gas Trading Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including executive directors

The Company is committed to pursuing equality and diversity in all its employment activities and continues to support initiatives to provide employment for people from minority groups in the community, including people with a disability, carers and lone parents To the extent possible, people with a disability are offered the same employment training, career development and promotion opportunities as other employees

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

Charitable and political donations

Charitable donations during the year amounted to £264,032 (2006 £4,147,505) There were no political donations made during the year (2006 nil)

Directors' and officers' liability

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc, and was in place throughout the year under review

British Gas Trading Limited

Directors' report (continued)

Statement of directors' responsibilies

The directors are responsible for preparing Annual Report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period

In preparing those financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business, in which case there should be supporting assumptions or qualifications as necessary

The directors confirm that they have complied with the above requirements in preparing the financial statements

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985 They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Disclosure of information to auditors

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

Independent auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually, and PricewaterhouseCoopers LLP will therefore continue in office

This report was approved by the board on 31 October 2008

for and on behalf of
Centrica Secretaries Limited
Company secretary

Registered office
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

Independent auditors' report to the members of British Gas Trading Limited

We have audited the financial statements of British Gas Trading Limited for the year ended 31 December 2007 which comprise the profit and loss account, the balance sheet and the related notes These financial statements have been prepared under the accounting policies set out therein

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of directors' responsibilities

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985 We also report to you whether in our opinion the information given in the directors' report is consistent with the financial statements

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

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

Basis of audit opinion

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

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

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2007 and of its profit for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985,
- the information given in the directors' report is consistent with the financial statements

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Embankment Place
London
WC2N 6RH

31 October 2008

Brıtısh Gas Tradıng Lımıted

Profit and loss account for the year ended 31 December

	Notes	2007	2006
		£000	£000
Turnover	2	**10,590,747**	10,267,843
Cost of sales		**(8,971,197)**	(9,379,686)
Gross profit		**1,619,550**	888,157
Admınıstratıve expenses (ıncludes exceptıonal ıtems of £nıl (2006 £194 1 mıllıon))	3	**(1,052,078)**	(1,507,776)
Operating profit/(loss)		**567,472**	(619,619)
Interest receıvable and sımılar ıncome	5	**23,036**	16,205
Interest payable and sımılar charges	5	**(6,105)**	(12,415)
Profit/(loss) on ordınary actıvıtıes before taxatıon		**584,403**	(615,829)
Tax on profit/(loss) on ordınary actıvıtıes	6	**(75,009)**	31,691
Profit/(loss) for the financial year	19	**509,394**	(584,138)

There are no dıfferences between the profit/(loss) on ordınary actıvıtıes before taxatıon and the profit/(loss) for the financıal year stated above and theır hıstorıcal cost equıvalents

There have been no recognısed gaıns or losses durıng the year other than those shown ın the profit and loss account

All actıvıtıes relate to contınuıng actıvıtıes

The notes on pages 11 to 30 form part of these financıal statements

British Gas Trading Limited

Balance sheet as at 31 December

	Notes	2007 £000	2006 £000
Fixed assets			
Intangible assets	7	**95,345**	102,972
Tangible assets	8	**202,183**	265,637
Investments - shares in subsidiary	9	**1,247,162**	1,247,162
Investments - other	10	**1,804**	1,047
		1,546,494	1,616,818
Current assets			
Stocks	11	**58,704**	79,425
Debtors (amounts falling due within one year)	12	**1,847,190**	2,160,472
Debtors (amounts falling due after more than one year)	12	**15,313**	48,461
Cash at bank and in hand		**1,994**	46,990
		1,923,201	2,335,348
Creditors (amounts falling due within one year)			
Borrowings	14	**(1,555)**	(5,621)
Other creditors	15	**(2,230,571)**	(3,163,306)
		(2,232,126)	(3,168,927)
Net current liabilities		**(308,925)**	(833,579)
Total assets less current liabilities		**1,237,569**	783,239
Creditors (amounts falling due after more than one year)			
Accruals and deferred income	15	**(14,367)**	(3,318)
Provisions for liabilities	16	**(162,353)**	(238,013)
Net assets		**1,060,849**	541,908
Capital and reserves			
Called up share capital	17	**800,000**	800,000
Share premium account	19	**447,162**	447,162
Profit and loss account	19	**(186,313)**	(705,254)
Total shareholder's funds	20	**1,060,849**	541,908

The financial statements on pages 9 to 30 were approved and authorised for issue by the board of directors on 31 October 2008 and were signed on its behalf by

Director M. L. T

The notes on pages 11 to 30 form part of these financial statements

1 Principal accounting policies

Accounting principles

The financial statements have been prepared under the historical cost convention in accordance with United Kingdom Accounting Standards and the Companies Act 1985

The following accounting policies have been applied consistently in relation to the Company's financial statements

Basis of preparation

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly owned subsidiary undertaking of Centrica plc The Company has taken advantage of the exemptions within FRS 1, "Cash flow statements" (revised 1996), from presenting a cash flow statement, within FRS 2, "Accounting for subsidiary undertakings", from consolidating its subsidiary undertakings and incorporating the results of its share of joint ventures and associates, and within FRS 8, "Related party disclosures", from disclosing transactions with other group companies

Included within amounts owed to group undertakings is 492 2 million (2006 £1,503 4 million) that is due to Centrica plc The amount payable is unsecured, interest free and technically repayable on demand However, Centrica plc will provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company

Turnover

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, value added tax and other sales-related taxes Turnover is recognised on the basis of energy supplied during the period Turnover includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread) Unread gas and electricity is estimated using historical consumption patterns and is included in accrued energy income within debtors All turnover arose in the United Kingdom

Cost of sales

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

Employee share schemes

The Company accounts for share-based payments under FRS 20 "Share based payments" The Centrica Group to which British Gas Trading Limited belongs has a number of employee share schemes, detailed in the directors' report - Corporate Responsibility on page 32, the Remuneration Report on pages 42 to 51 of the Centrica plc Annual Report and Accounts 2007 and in note 33 of the Centrica plc Annual Report and Accounts 2007, under which it makes equity-settled share-based payments to certain employees Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions) The fair value determined at the grant date is expensed on a straight line basis together with a corresponding increase in the equity over the vesting period, based on the Centrica Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based vesting conditions

1 Principal accounting policies (continued)

Employee share schemes (continued)
Fair value is measured using methods appropriate to each of the different schemes as follows

LTIS awards up to 2005	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance
LTIS 2006 EPS awards	Market value on the date of grant
LTIS 2006 TSR awards	A Monte Carlo simulation to predict the Total Shareholder Return performance
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise
SAS, SIP, DMSS and RSS	Market value on the date of grant

Foreign currencies
Monetary assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange Exchange differences are recognised through the profit and loss account

Intangible fixed assets
Goodwill arising on the acquisition of a business is included in the balance sheet at cost, less accumulated amortisation and any provisions for impairment On the acquisition of a business, fair values are attributed to the assets and liabilities acquired Goodwill, which represents the difference between the purchase consideration and the fair values of those net assets, is capitalised and amortised on a straight-line basis over a period, which represents the directors' estimate of its useful economic life Goodwill is being amortised over periods ranging from 15 to 20 years If an undertaking is subsequently sold, the appropriate unamortised goodwill or goodwill written off to reserves is dealt with through the profit and loss account in the period of disposal as part of the gain or loss on disposal

Tangible fixed assets
Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment

In the case of investments in Customer Relationship Management (CRM) systems and other technology infrastructure, cost includes contractors' charges, materials, direct labour and directly attributable overheads Capitalisation begins when expenditures for the asset are being incurred and activities that are necessary to prepare the asset for use are in progress Capitalisation ceases when substantially all the activities that are necessary to prepare the asset for use are complete Depreciation commences at the point of commercial deployment

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

Plant	5 to 20 years
Equipment and vehicles	3 to 10 years

Assets held under finance leases are depreciated over their expected useful economic lives on the same basis as for owned assets, or where shorter, the lease term

Leases
Rentals under operating leases are charged to the profit and loss account on a straight-line basis

1 Principal accounting policies (continued)

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

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

Asset impairments
Intangible and tangible fixed assets and financial assets are reviewed for impairments if events or changes in circumstances indicate that the carrying amount may not be recoverable When a review for impairment is conducted, the recoverable amount is assessed by reference to the net present value of expected future cash flows of the relevant income generating unit or disposal value, if higher If an asset is impaired, a provision is made to reduce the carrying amount to its estimated recoverable amount

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

Take-or-pay contracts
Where payments are made to external suppliers under take-or-pay obligations for gas not taken, they are treated as prepayments and are included within debtors, provided they generate future economic benefits

Pensions
The Company's employees participate in a number of the Group's defined benefit pension schemes The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes The pension disclosures for the entire Centrica group are disclosed in the Centrica plc 2007 Annual Report on pages 126 to 129 The charge to the profit and loss account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Centrica Group as a whole

Long term sales contracts
Provision is made for the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts The provision is based on the difference between the contracted sales price and the least cost of gas available on a stacked, contract by contract basis

Taxation
Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date

Deferred tax is measured on a non-discounted basis

1 Principal accounting policies (continued)

Financial instruments

Certain financial instruments are used by the Company to manage financial risks Where financial instruments are used as hedges against financial risks, they are matched at their inception to the specific exposures they are designed to reduce Gains and losses are released to the profit and loss account in the same period as the income and costs of the hedged transactions Outstanding contracts used to hedge against trading items which themselves will be accounted for in the profits and losses of a future period, are not recognised, or are deferred when they mature and are carried forward to match against corresponding gains and losses when they occur

Critical accounting judgements and key sources of estimation uncertainty

Revenue recognition - unread gas and electricity meters

Revenue for energy supply activities includes an assessment of energy supplied to customers between the date of the last meter reading and the year end (unread) Unread gas and electricity is estimated applying industry standards and using historical consumption patterns taking into account the industry reconciliation process for total gas and electricity usage by supplier Management applies judgement to the measurement of the estimated energy supplied to customers and to the valuation of that energy consumption An assessment is made of any factors that are likely to materially affect the ultimate economic benefits which will flow to the Company, including delays in processing, bill cancellation and re-bill rates and any customer or industry data quality issues In the period subsequent to the implementation of the new billing system, operational exceptions have been running at a higher level and this has been taken account of in the judgements made To the extent that the economic benefits are not expected to flow to the Company, the value of the revenue is not recognised The judgements applied, and the assumptions underpinning these judegments are considered to be appropriate However, a change in these assumptions would impact upon the amount of revenue recognised

Industry reconciliation process - cost of sales

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

2 Segmental analysis

All of the turnover of £10,591 million (2006 £10,268 million) relate to energy supply, the principal activity of the business All energy supply arose in the United Kingdom This segment had an operating profit of £567 5 million in 2007 (2006 £619 6 million loss) and net assets of £1,060 8 million at 31 December 2007 (2006 £541 9 million net assets)

3 Admınıstrative expenses

The Company's admınistrative expenses, whıch have been charged to the profit and loss account, ınclude·	Notes	2007 £000	2006 £000
Amortısatıon of goodwıll	7	**7,627**	6,752
Deprecıatıon			
Owned assets	8	**50,484**	57,734
Operatıng lease rentals			
Other		**3,896**	4,345
Exceptıonal ıtems			
Busıness restructurıng		**-**	16,396
Impaırment of bıllıng system		**-**	177,688
Audıtors' remuneratıon			
Statutory audıt (ınter group recharge)		**1,076**	1,269
Other		**211**	-
Loss/(profit) on sale of fixed assets		**144**	(249)

In 2007 the Company contınued wıth ıts busıness restructurıng ın lıne wıth the Brıtısh Gas transformatıon programme The exceptıonal costs comprıse £nıl (2006 £16 4 mıllıon) resultıng from ongoıng restructurıng costs of the busıness and an ımpaırment of the bıllıng system amountıng to £nıl (2006 £177 7 mıllıon)

4 Dırectors and employees

Directors' emoluments

Phıllıp Bentley and Jake Ulrıch receıved no emoluments ın respect of theır servıces to the Company and theır emoluments for servıces to the Centrıca Group are dısclosed ın the Centrıca plc 2007 annual report (2006 £nıl)

	2007 £000	2006 £000
Employee costs		
Wages and salarıes	**299,811**	277,638
Socıal securıty costs	**29,710**	26,276
Other pensıon and retırement benefits costs	**62,138**	33,510
Executıve share optıon scheme	**820**	1,033
Long term ıncentıve scheme	**4,126**	3,376
Share ıncentıve plan	**1,550**	1,561
Employee sharesave scheme	**2,220**	2,308
Share award Scheme	**1,040**	329
Deferred and matchıng share scheme	**1,341**	-
	402,756	346,031

4 Directors and employees (continued)

Average number of employees during the year
The average monthly number of employees, all employed in the United Kingdom, during the year was 11,619 compared to 11,101 for 2006 All employees were administrative and sales staff

The disclosures surrounding the Employee costs and the 'Average number of employees during the year' include all Centrica Group employees that work in the British Gas Trading Limited business Not all of these employees have service contracts with British Gas Trading Limited, because in some cases the contracts of service are with other Centrica Group companies The directors believe that the disclosures given are the fairest representation of number of people working in the business

5 Net interest

	Note	2007 £000	2006 £000
Interest receivable and similar income			
Interest receivable from group undertakings		**424**	-
Notional interest arising on discounted items		**2,962**	5,472
Other interest receivable		**19,650**	10,733
		23,036	16,205
Interest payable and similar charges			
Interest payable on bank loans and overdrafts		**(37)**	(1,401)
Interest payable to group undertakings		**(110)**	(5,045)
Notional interest arising on discounted items	16	**(5,958)**	(5,969)
		(6,105)	(12,415)
Net interest receivable		**16,931**	3,790

6 Tax on profit/(loss) on ordinary activities

	2007 £000	2006 £000
Current tax		
UK corporation tax on profits for the year	-	-
Adjustments in respect of prior years	(1,639)	-
Total current tax	(1,639)	-
Deferred tax.		
Effect of change to deferred tax rate	865	-
Origination and reversal of timing differences	107,885	(32,881)
Adjustments in respect of prior years	(32,102)	1,190
Total deferred tax (note 13)	76,648	(31,691)
Total tax on profit/(loss) on ordinary activities	75,009	(31,691)

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/(loss) before taxation is as follows

	2007 £000	2006 £000
Profit/(loss) on ordinary activities before taxation	584,403	(615,829)
Tax charge/(credit) on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2006 30%)	175,321	(184,749)
Effects of		
Expenses not deductible for tax purposes	40,598	73,222
Utilisation of timing differences including losses	(28,971)	(10,219)
Capital allowances in excess of depreciation	(7,853)	43,100
Use of brought forward losses	(71,061)	-
UK UK transfer pricing	(18,241)	(19,587)
Group relief for nil consideration	(89,793)	98,233
Adjustments in respect of prior years	(1,639)	-
Total current tax charge	(1,639)	-

7 Intangible assets

	Goodwill £000
Cost	
At 1 January 2007 and at 31 December 2007	125,274
Accumulated amortisation	
At 1 January 2007	(22,302)
Charge for the year	(7,627)
At 31 December 2007	(29,929)
Net book value	
At 31 December 2007	95,345
At 31 December 2006	102,972

7 Intangible assets (continued)

The intangible assets consist of goodwill arising on the following,

		Economic life	Original cost £000	Carrying amount £000
Trade and assets of Enron Direct	2001	15	56,962	33,863
Gas customers and gas supply agreements from Total Fina Elf	2005	20	8,746	7,835
Trade and assets of Electricity Direct	2005	15	24,903	21,583
Gas customers and gas supply agreements from Total Fina Elf	2006	20	34,663	32,064
			125,274	**95,345**

8 Tangible assets

	Plant, equipment and vehicles £000
Cost	
At 1 January 2007	649,855
Additions	28,322
Disposals	(84,150)
At 31 December 2007	594,027
Accumulated depreciation	
At 1 January 2007	(384,218)
Charge for the year (note 3)	(50,484)
Disposals	42,858
At 31 December 2007	(391,844)
Net book value	
At 31 December 2007	202,183
At 31 December 2006	265,637

9 Investments - shares in subsidiary

	£000
Cost and net book value	
At 31 December 2006 and at 31 December 2007	1,247,162

9 Investments - shares in subsidiary (continued)

Interests in subsidiaries

As at 31 December 2007 the Company had interests in the issued share capital of the subsidiary undertakings listed below

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

Income from fixed asset investments

No dividends were received during the year (2006 £nil)

10 Investments - other

	2007 £000	2006 £000
At 1 January 2007	1,047	-
Additions	757	1,047
At 31 December 2007	1,804	1,047

During 2007 the Company continued to invest in a carbon fund and managed account which is managed through a closed-end limited partnership called Climate Change Capital

11 Stocks

	2007 £000	2006 Restated £000
Gas in storage	46,522	77,665
Other raw materials and consumables	9,468	-
Finished goods for resale	2,714	1,760
	58,704	79,425

The 2006 stock values have been restated to seperately disclose the finished goods for resale stock that had been included in the gas in storage stock in 2006 The total 2006 stock value has remained unchanged

12 Debtors

	2007 Within one year £000	2007 After more than one year £000	2006 Within one year £000	2006 After more than one year £000
Trade debtors	578,559	-	771,141	-
Accrued energy income	974,682	-	1,083,458	-
Amounts owed by group undertakings	6,193	7,075	48 175	10,796
Deferred tax (note 13)	3,871	8,238	51,092	37,665
Other debtors	269,358	-	170,723	-
Prepayments and other accrued income	14,527	-	35,883	-
	1,847,190	15,313	2,160,472	48,461

12 Debtors (continued)

Included within amounts owed by group undertakings is £3 7 million (2006 £2 3 million) that is due from Centrica Resources Limited, £1 0 million (2006 £0 2 million) that is due from Centrica Energie GmbH, £1 0 million (2006 £nil) that is due from Centrica Resources (Egypt) limited, £0 5 million (2006 £0 5 million) that is due from Centrica Resources (Nigeria) Limited, £nil million (2006 £8 3 million) that is due from Hydrocarbon Resources Limited, £nil million (2006 £35 8 million) that is due from Accord Energy Limited and £nil million (2006 £1 0 million) that is due from Centrica Resources (Norge) AS These amounts receivable are unsecured, interest free and repayable within one year Also included in amounts owed by group undertakings after more than one year is £7 1 million (2006 £10 8 million) that is due from Centrica Resources Limited and this amount receivable is unsecured and interest free

13 Deferred taxation

Deferred tax assets at 28% (2006: 30%) comprise:	**Amounts recognised**	
	2007	2006
	£000	£000
Deferred corporation tax		
- accelerated capital allowances	**7,905**	2,664
- other timing differences	**4,204**	86,093
	12,109	88,757

The proposed reduction in the rate of UK corporation tax from 30% to 28% as per the 2007 budget was substantively enacted on 26 June 2007 As a result deferred tax reversing after 1 April 2008 is calculated at the rate of 28%

14 Borrowings

	2007 Within one year £000	2006 Within one year £000
Bank loans and overdrafts	**1,555**	5,621

The Company's bank overdraft at the year end represented items in the process of being cleared by the bank Centrica plc's treasury department pools funds daily and via intercompany accounts resets the Company's balance at the bank to £nil All interest charges payable on the bank overdraft during the period are borne by the parent undertaking

15 Other creditors

	2007 Within one year	**2007 After more than one year**	2006 Within one year	2006 After more than one year
	£000	**£000**	£000	£000
Trade creditors	**775,791**	**-**	874,166	-
Amounts owed to group undertakings	**628,414**	**-**	1,522,191	-
Taxation and social security	**29,019**	**-**	26,643	-
Other creditors	**567,194**	**11,049**	513,438	-
Accruals and deferred income				
Transportation	**16,510**	**-**	19,745	-
Other accruals and deferred income	**213,643**	**3,318**	207,123	3,318
	2,230,571	**14,367**	3,163,306	3,318

15 Other creditors (continued)

Included within Amounts owed to group undertakings is £492 2 million (2006 £1,503 4 million) that is due to Centrica plc The amount payable is unsecured, interest free and technically repayable on demand However, Centrica plc will provide financial support to the Company to ensure that it is able to meet its liabilities as they fall due for the foreseeable future In particular, the amounts owed to group undertakings will not be repaid to Centrica plc for the foreseeable future unless sufficient financial resources and facilities are available to the Company

Also included within amounts owed to group undertakings is £123 0 million (2006 £nil) that is due to Hydrocarbon Resources Limited, £9 4 million (2006 £nil) that is due to Accord Limited, £3 8 million (2006 £5 7 million) that is due to Centrica Storage Limited and £nil (2006 £13 1million) that is due to British Gas Services Limited These amounts are due within one year, are unsecured and interest free, except for the amount owed to Hydrocarbon Resources Limited, where compound interest is payable at the Bank of England base rate plus 0 5%

16 Provisions for liabilities

	As at 1 Jan 2007	Profit and loss charge	Notional Interest	Utilised	**As at 31 Dec 2007**
	£000	£000	£000	£000	**£000**
Sales contract loss and renegotiation provisions	197,508	46,000	5,958	(99,149)	**150,317**
Restructuring costs	38,094	-	-	(29,345)	**8,749**
Other	2,411	876	-	-	**3,287**
	238,013	46,876	5,958	(128,494)	**162,353**

Sales contract loss and renegotiation provisions

The sales contract loss provision should represent the net present cost, using a risk free discount rate, of expected losses on onerous long-term sales contracts based on the difference between contracted sales prices and the least cost of gas available on a stacked, contract by contract basis

In previous years, the Company renegotiated certain long-term take-or-pay contracts, which would otherwise have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates The provision represents the net present cost of estimated payments due to suppliers as consideration for the renegotiations, which are due for settlement in 2008 based on the reserves in a group of third party fields The amount arising in the year includes £6 million of notional interest (on the unwind of a discounted liability) (2006 £6 million)

Restructuring costs

The provision represents business restructuring costs and mainly relates to staff redundancies The provision is expected to be fully utilised in 2008

Other

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

17 Called up share capital

	2007	2006
	£000	£000
Authorised		
1,800,000,100 ordinary shares of £1 each	**1,800,000**	1,800,000
1 redeemable share of £1	-	-

On 27 June 1996 1 redeemable share of £1 was issued , which was subsequently redeemed on 17 February 1997

Allotted and fully paid		
800,000,100 ordinary shares of £1 each	**800,000**	800,000

18 Share-based payments

Employee share schemes are designed to encourage participants to align their objectives with those of shareholders Centrica operates eight employee share schemes – the Deferred and Matching Share Scheme (DMSS) beginning in 2007, the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave, the Share Award Scheme (SAS), the Restricted Share Scheme (RSS) beginning in 2007, the Share Incentive Plan (SIP) and the Employee Share Purchase Plan (ESPP) (no British Gas Trading Limited employees are eligible to participate in this scheme, only Centrica employees in North America) These are described in the directors' report – Corporate Responsibility on page 32 and in the remuneration report on pages 43 to 45 of the Centrica plc annual report and accounts 2007 There were no other share-based payment transactions during the period

DMSS

Awards under the DMSS are generally reserved for employees within the senior executive group The scheme operates over a four-year vesting period Under normal conditions the grant date of the scheme is the first day of each bonus year This is followed by a vesting period of four years, being the bonus year plus a three-year performance period In 2006, the first year of the scheme, shareholders' approval was obtained at the AGM on 19 May 2006 and as such the grant date reflects the date of this approval The fair value of the award reflects the market value of the shares at the grant date The scheme comprises three separable elements

(a) Deferred shares

The scheme requires participants to defer 20% of their annual bonus into the scheme The shares are held in trust over the three-year performance period, during which time they cannot be withdrawn An employee who leaves prior to the vesting date will forfeit their right to the shares All shares held in trust will be eligible to receive dividends The number of shares deferred is estimated from the participant's maximum bonus and the likelihood of bonus payout in the bonus year Subsequent revisions are made based on the actual bonus paid in the year

(b) Investment shares

The scheme allows participants to elect to invest an additional amount of their annual bonus into the scheme up to a maximum of 50% of their total potential bonus for the year This 50% limit includes the amount automatically deferred each year The number of shares invested is estimated based on the maximum bonus in year one The shares may be funded directly from the employee or through a release of the employee's LTIS shares Subsequent to the bonus year, the shares are held in trust over the three-year performance period and vest unconditionally at election, thus the shares carry no additional FRS 20 expense Participants can unconditionally withdraw the invested shares at any point throughout the vesting period The shares are eligible to receive dividends

(c) Matching shares

Deferred and investment shares will be matched with conditional matching shares, which will be released upon the achievement, over a three-year performance period, of three-year cumulative Group economic profit performance targets Group economic profit is calculated by taking operating profit before exceptional items and certain re-measurements after tax and subtracting a charge for capital employed based on the weighted average cost of capital The number of matching shares that will vest will be determined on a straight-line basis from a zero match for no growth in economic profit up to a two-times match for growth of 25% or above The number of matching shares, subject to the performance conditions, is grossed up to reflect the impact of tax and National Insurance The number of matching shares released following the satisfaction of the performance condition will be increased to reflect the dividends that would have been paid during the three-year performance period The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest Estimates are made in year one and revised in subsequent years An employee that leaves prior to the vesting date before the vesting period will forfeit their right to the shares

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

Grant date	**1 January 2007**	19 May 2006
Share price at grant date	**£3 55**	£2 65
Exercise price	**£nil**	£nil
Number of investment shares (i)	**492,090**	489,642
Number of deferred shares originally granted (i)	**434,768**	432,605
Number of matching shares originally granted (i)	**2,654,925**	2,641,716
Vesting period	**4 yrs**	3 6 yrs
Contractual life	**4 yrs**	3 6 yrs
Expected dividend yield	**n/a**	n/a
Expected forfeitures	**25%**	25%
Expected performance lapses	**0%**	0%
Fair value per share allocated	**£3 55**	£2 65

(i) The number of shares originally granted and fair value allocated are estimated on the grant date and then adjusted following the announcement of actual annual performance bonus and subsequent investment by participants A reconciliation of movements in allocations of deferred and matching shares actually made is shown below

18 Share-based payments (continued)

	2007 Number
Outstanding at start of year	-
Granted	1 042 924
Exercised	-
Forfeited	(28 563)
Outstanding at the end of the year	1 014 361
Exercisable at the end of the year	-

There were no shares exercised during the year

ESOS

Under the ESOS the Board may grant options over shares in Centrica plc to employees of the Group Options are granted with a fixed exercise price equal to the market price of the shares at the legal date of grant which approximates or is the same as the grant date for accounting purposes The contractual life of an option is ten years Awards under the ESOS are generally reserved for employees within the senior executive group The most recent award was made in 2006 There are no further awards planned at this time Options granted under the ESOS will become exercisable on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by more than 18 percentage points The number of options becoming exercisable is reduced on a sliding scale if EPS growth exceeds RPI growth by between nine and 18 percentage points Options granted up to March 2004 also permit retesting of EPS growth annually for a further two years Exercise of options is subject to continued employment within the Group Options were valued using the Black-Scholes option pricing model No performance conditions were included in the fair value calculations Early exercise has been taken into account by estimating the expected life of the options The fair values and the related assumptions used in the calculations are as follows

Grant date	27 April 2006	23 September 2005	1 April 2005	1 September 2004	18 March 2004	1 September 2003	24 March 2003
Share price at grant date	£2 99	£2 46	£2 28	£2 46	£2 28	£1 80	£1 47
Exercise price	£2 85	£2 51	£2 29	£2 45	£2 24	£1 78	£1 47
Number of options originally granted	6,220,098	291 235	8 339 818	195 795	8,815 399	635 599	13,319 276
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	24%	30%	30%	27%	27%	35%	35%
Contractual option life	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs	10 yrs
Expected life	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs	5 yrs
Risk-free rate	4 70%	4 80%	4 70%	5 00%	5 01%	4 45%	4 44%
Expected dividend yield	4 10%	4 37%	4 37%	4 82%	4 82%	3 09%	3 09%
Expected forfeitures	25%	25%	25%	25%	25%	25%	25%
Fair value per option	£0 59	£0 50	£0 49	£0 47	£0 45	£0 51	£0 41

(i) The expected volatility is based on historical volatility over the last three years except in the case of options granted in 2003 where historical volatility over the preceding three years was 43% This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999-2000 In this case the volatility was reassessed ignoring this period The expected life is the average expected period to exercise The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life A reconciliation of option movements is as follows

	2007 Number	2007 Weighted average exercise Price £	2006 Number	2006 Weighted average exercise Price £
Outstanding at start of year	7,127,519	£2.34	10 227 117	£2 06
Granted	-	-	2 158 280	£2 85
Exercised	(1,286,422)	£2 16	(3 824,307)	£1 84
Forfeited	(490,761)	£2.36	(1 433 571)	£2 39
Transfer to / from other Group entities	1,135,082		-	
Outstanding at the end of the year	6,485,418	£2.37	7,127,519	£2 35
Exercisable at the end of the year	2,196,245	£2 00	1,573 594	£2 00

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

2007 Range of exercise prices	2007 Weighted average exercise price	2007 Number of Shares	2007 Average remaining contractual life Years	2006 Range of exercise prices	2006 Weighted average exercise price	2006 Number of Shares	2006 Average remaining contractual life Years
£1 40 – £1 49	£1 47	763,041	5.3	£1 40 – £1 49	£1 47	593 451	6 3
£2 20 – £2 29	£2 28	3,173,640	6 6	£2 20 – £2 29	£2 27	4 242 069	7 5
£2 40 – £2 49	£2 40	406,164	3 4	£2 40 – £2 49	£2 40	458,236	4 4
£2 50 – £2 59	£2.51	109,365	7 8	£2 50 – £2 59	£2 51	109 365	8 8
£2 80 – £2 89	£2.85	2,033,208	8.3	£2 80 – £2 89	£2 85	1,724,398	9 3
	£2.37	6,485,418	6 8		£2 35	7 127,519	7 7

For options exercised during the period the weighted average share price was £3 84 (2006 £2 92)

18 Share-based payments (continued)

LTIS

Under the LTIS, allocations of shares in Centrica plc are made to employees of the Group Awards under the LTIS are generally reserved for employees at senior management level For awards made up to 2005 the number of shares to be released to participants is calculated subject to the Company s total shareholder return (TSR) during the three years following the grant date compared with the TSR of other shares in the FTSE 100 Index over the same period The number of shares released is reduced on a sliding scale if Centrica s TSR is ranked between 50th and 25th Shares are released to participants immediately following the end of the period in which TSR performance is assessed, but release of shares is subject to continued employment within the Group at the date of release Allocations were valued using the Black-Scholes option pricing model Performance conditions were included in the fair value calculations through the use of a Monte Carlo simulation model For awards made from 2006 the vesting of only half of each award is made on the basis of TSR performance For this half of the award the calculation of TSR performance as compared with the TSR of other FTSE 100 Index shares is consiste with awards made to the end of 2005, except that allocations are valued using a Monte Carlo simulation model The number of shares released is increased on a sliding scale between 25% and 100% if Centrica's TSR is ranked between 50th and 20th The vesting of the remaining half of awards made since 2006 is dependent on earnings per share (EPS) growth This is considered a non-market condition under FRS 20 and dividends attach to the awards requiring the shares to be fair valued at market value on the date of grant The likelihood of achieving the performance conditions is taken into account in calculating the number of awards expected to vest For shares that vest on awards made from 2006 (for both TSR and EPS portions) the cash payment is increased to reflect the dividends that would have been paid on them during the performance period The fair values and the related assumptions used in the calculations are as follows

Grant date	**14 September 2007**	**4 April 2007**	4 September 2006	19 May 2006	2 May 2006	23 September 2005	1 April 2005	1 September 2004	1 April 2004
Share price at grant date	**£3 77**	**£3 91**	£3 03	£2 65	£3 01	£2 46	£2 28	£2 46	£2 30
Exercise price	**£nil**	**£nil**	£nil	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	**228,423**	**6,239,643**	654 396	1 456 064	6,153 355	456,421	8 408 130	310 460	9 765 341
Vesting period	**3 yrs**	**3 yrs**	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (ii)	**21%**	**21%**	22%	22%	21%	30%	30%	27%	27%
Contractual life	**3 yrs**	**3 yrs**	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	**3 yrs**	**3 yrs**	3 yrs	2 9 yrs	2 9 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	**5 40%**	**5 40%**	4 80%	4 80%	4 70%	4 80%	4 68%	5 00%	5 04%
Expected dividend yield	**n/a**	**n/a**	n/a	n/a	n/a	4 37%	4 37%	4 82%	4 82%
Expected forfeitures	**20%**	**20%**	20%	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	**30%**	**30%**	30%	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	**(ii)**	**(ii)**	(ii)	(ii)	(ii)	(ii)	(ii)	30%	30%
Fair value per share allocated - TSR awards	**£2 26**	**£2 26**	£1 66	£1 38	£1 80	£1 20	£1 03	£1 25	£1 17
Fair value per share allocated - EPS awards	**£3 77**	**£3 91**	£3 03	£2 65	£3 01	n/a	n/a	n/a	n/a

(i) The expected volatility is based on historical volatility over the last three years, except in the case of options granted in 2003 where historical volatility over the preceding three years was 43% This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999-2000 In this case the volatility was reassessed ignoring this period The expected life is the contract life The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life A reconciliation of movements in allocations is as follows

	2007 Number	2006 Number
Outstanding at start of year	**6,400,898**	7 583 597
Granted	**2,376,238**	2 478 685
Exercised	**(1,603,621)**	(1 806,014)
Forfeited – performance related	**(13,867)**	(596 849)
Forfeited – non-performance related	**(1,172,921)**	(1 258 521)
Transfer to / from other Group entities	**1,063,328**	-
Outstanding at the end of the year	**7,050,055**	6,400,898
Exercisable at the end of the year	**17,255**	-

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

For shares exercised during the year the weighted average share price was £3 91 (2006 £2 88)

18 Share-based payments (continued)

Sharesave

Under Sharesave the board may grant options over shares in Centrica plc to UK-based employees of the Group Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date Employees pay a fixed amount from salary into a savings account each month and may elect to save over three or five years At the end of the savings period, employees have six months in which to exercise their options using the funds saved, including interest earned If employees decide not to exercise their options they may withdraw the funds saved, and the options expire Exercise of options is subject to continued employment within the Group Options were valued using the Black-Scholes option pricing model The fair values and the related assumptions used in the calculations are as follows

Grant date	4 April 2007	4 April 2007	10 April 2006	10 April 2006	6 April 2005	6 April 2005	1 April 2004	1 April 2004	8 April 2003
Share price at grant date	£3 91	£3 91	£2 86	£2 86	£2 36	£2 36	£2 30	£2 30	£1 59
Exercise price	£2 91	£2 91	£2 38	£2 38	£1 88	£1 88	£1 83	£1 83	£1 07
Number of options originally granted	3,095,084	6,231,230	3,587,711	8 548 648	4 329 658	5 791 571	3 854 639	7 407 793	37,280 748
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Expected volatility (i)	27%	21%	25%	23%	30%	30%	27%	27%	35%
Contractual option life	5 5 yrs	3 5 yrs	5 5 yrs	3 5 yrs	5 5 yrs	3 5 yrs	5 5 yrs	3 5 yrs	5 5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs
Risk-free rate	5.20%	5 40%	4 5%	4 5%	4 65%	4 64%	5 13%	5 04%	3 90%
Expected dividend yield	3 70%	3 70%	4 1%	4 1%	4 37%	4 37%	4 82%	4 82%	3 09%
Expected forfeitures	40%	25%	40%	25%	40%	25%	40%	25%	40%
Fair value per option	£1 28	£1 14	£0 72	£0 65	£0 68	£0 64	£0 61	£0 58	£0 64

(i) The expected volatility is based on historical volatility over the last three years except in the case of options granted in 2003 where historical volatility over the preceding three years was 43% This was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999-2000 In this case the volatility was reassessed ignoring this period The expected life is the contract life which is a fixed term of three years The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life A reconciliation of movements in allocations is as follows

	2007 Number	2007 Weighted average exercise price £	2006 Number	2006 Weighted average exercise price £
Outstanding at start of year	11,939,669	£1 61	20 766 634	£1 28
Granted	2,374,080	£2 91	2,860 713	£2 38
Exercised	(2,413,031)	£1 64	(8,371 460)	£1 12
Forfeited	(1,047,122)	£2 23	(3,316 218)	£1 54
Expired	-	-	-	-
Transfer to / from other Group entities	(112,302)		-	
Outstanding at the end of the year	10,741,294	£1 84	11,939,669	£1 58
Exercisable at the end of the year	18,177	£1 81	3,879	£1 07

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

2007 Range of exercise prices	2007 Weighted average exercise price	2007 Number of shares	2007 Average remaining contractual life years	2006 Range of exercise prices	2006 Weighted average exercise price	2006 Number of shares	2006 Average remaining contractual life years
£1 00–£1 09	£1 07	4,568,086	0 9	£1 00–£1 09	£1 07	5,739 687	1 9
£1 70–£1 79	£1 78	6,518	0 0	£1 70–£1 79	£1 78	429 319	0 9
£1 80–£1 89	£1 87	1,896,831	1 7	£1 80–£1 89	£1 86	3 420 338	2 1
£1 90–£1 99	£1 91	-	0 0	£1 90–£1 99	£1 91	1 766	-
£2 30–£2 39	£2 38	2,178,901	2 4	£2 30–£2 39	£2 38	2 348 559	3 4
£2 90 – £2 99	£2 91	2,090,958	3 4	-	-	-	-
	£1 84	10,741,294	1 8		£1 58	11 939 669	2 2

For options exercised during the year the weighted average share price at the date of exercise was £3 77 (2006 £2 80)

SAS

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

18 Share-based payments (continued)

Grant date	4 April 2007	4 April 2007	3 April 2006	3 April 2006
Share price at grant date	£3 91	£3 91	£2 84	£2 84
Exercise price	£nil	£nil	£nil	£nil
Number of options originally granted	585,022	584,781	780 367	780 143
Vesting period	3 yrs	2 yrs	3 yrs	2 yrs
Contractual option life	3 yrs	2 yrs	3 yrs	2 yrs
Expected forfeitures	25%	15%	25%	15%
Fair value per option	£3 91	£3 91	£2 84	£2 84

A reconciliation of movements in the allocations is as follows

	2007 Number	2006 Number
Outstanding at start of year	445,955	-
Granted	338,064	457 318
Exercised	(4,127)	-
Forfeited	(54,976)	(11 363)
Outstanding at end of year	724,916	445,955
Exercisable at end of year	-	-

For shares exercised during the year the weighted average share price at the date of release was £3 84 (2006 £nil)

RSS

Under the RSS, allocations of shares in Centrica plc are made to employees of the Group on a highly selective basis Awards under the RSS are reserved for certain selected key employees at senior management levels based on recommendation by the chief executive and the Group director human resources Neither the executive directors nor the next tier of executive management is eligible to participate There is no contractual eligibility for RSS and each year s award is made independently from previous awards 2007 was the first year of awards Allocations are subject to no performance conditions and vest unconditionally subject to continued employment with the Group in one or two stages dependent on the individual awards On vesting, additional shares or a cash payment are made to reflect dividends that would have been paid on the allocations during the retention period The fair value is therefore considered to be the market value at date of grant The fair values and related assumptions used to calculate the cost to the Group are as follows

Grant date	29 June 2007	4 June 2007	4 June 2007	4 April 2007	4 April 2007	4 April 2007
Share price at grant date	£3 88	£3 78	£3 78	£3 91	£3 91	£3 91
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Number of options originally granted	59,407	78,534	47,117	53,157	89,322	36,166
Vesting period	3 yrs	3 yrs	2 yrs	3 yrs	2 yrs	1 yr
Contractual option life	3 yrs	3 yrs	2 yrs	3 yrs	2 yrs	1 yr
Expected forfeitures	25%	25%	15%	25%	15%	5%
Fair value per option	£3 88	£3 78	£3 78	£3 91	£3 91	£3 91

A reconciliation of movements in the allocations is as follows

	2007 Number
Outstanding at start of year	-
Granted	269,465
Exercised	-
Forfeited	-
Outstanding at the end of the year	269,465
Exercisable at the end of the year	-

There were no shares exercised during the year

SIP

Under SIP, employees in the UK may purchase partnership shares through monthly salary deductions The Company then grants one matching share' for every two purchased up to a maximum of 20 matching shares per employee per month Both partnership shares and matching shares are held in a trust initially Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date Matching shares vest unconditionally for employees after being held for three years in the trust Vesting of matching shares is also subject to continued employment within the Group Matching shares are valued at the market price at the grant date The average fair value of these awards during the year was £3 72 (2006 £2 97) A reconciliation of matching shares held in trust is as follows

	2007 Number	2006 Number
Unvested at start of year	1,967,977	1 582 929
Granted	492,585	643 928
Shares sold and transferred out of the plan	(229,780)	(152 924)
Forfeited	(96,754)	(105,956)
Unvested at end of year	2,134,028	1 967 977

19 Reserves

	Share premium account £000	Profit and loss account £000
As at 1 January 2007	447,162	(705,254)
Profit for the financial year	-	509,394
Employee share option schemes		
Value of services provided	-	9,547
As at 31 December 2007	447,162	(186,313)

The profit and loss account can be further analysed as follows

	Share option reserves £000	Other £000	Profit and loss account £000
As at 1 January 2007	12,044	(717,298)	(705,254)
Profit for the financial year	-	509,394	509,394
Employee share option schemes			
Value of services provided	9,547	-	9,547
As at 31 December 2007	21,591	(207,904)	(186,313)

20 Reconciliation of movements in shareholder's funds

	2007 £000	2006 £000
As at 1 January	**541,908**	1,127,066
Profit/(loss) for the financial year	**509,394**	(584,138)
Employee share option schemes		
Value of services provided	**9,547**	(1,020)
As at 31 December	**1,060,849**	541,908

21 Commitments and contingencies

	2007 £000	2006 £000
a) Commitments in relation to other contracts		
Transportation capacity	424	461
Outsourcing of services	29	15
	453	476

b) Lease commitments

At 31 December non-cancellable operating lease commitments of the Company for the following year were

	2007 £000	2006 £000
Expiring between one and five years	3,654	2,053

There were no operating leases relating to land and buildings (2006 £nil)

c) Pensions

The majority of the Company's UK employees as at 31 December 2007 were members of two of the three main schemes in the Centrica plc Group, the Centrica Pension Scheme and the Centrica Management Pension Scheme

These are defined benefit schemes and their assets are held in separate trustee administered funds However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS 17, these schemes have been treated as defined contribution schemes The aggregate contributions to the schemes during the year were £62,138,273 88 (2006 £33,509,720) The amount outstanding at the balance sheet date was £nil (2006 £nil) The latest actuarial valuation of the schemes, updated for the purposes of FRS 17 show a total surplus of £35 million (£25 million net of deferred tax) (2006 £226 million deficit (£158 million deficit net of deferred tax)) These pension schemes are included on a consolidated basis within the group accounts of Centrica plc as prepared under IFRS

The liabilities under the pension schemes will be paid out over an extended period The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full This actuarial advice is based on triennial funding valuations carried out at least triennially, the last of which was as at 31 March 2006

d) Guarantees and indemnities

In connection with the Centrica Group's energy trading, transportation and upstream activities, certain Centrica Group companies, including British Gas Trading Limited, have entered in contracts under which they may be required to prepay or provide credit support or other collateral in the event of a significant deterioration in creditworthiness The extent of credit support is contingent upon the balance owing to the third party at the point of deterioration

21 Commitments and contingencies (continued)

e) Commodity purchase contracts

The Centrica group procures gas and electricity through a mixture of production from Centrica owned gas fields and power stations and external procurement contracts

Procurement contracts include short-term forward market purchases of gas and electricity at fixed and floating prices They also include gas contracts indexed to market prices and long-term gas contracts with non-gas indexation Further information about the Centrica Group's procurement strategy is contained in the annual report of Centrica plc (note 36 page 134 of the Centrica Annual Report and Accounts)

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

	2007 **£m**	2006 £m
Within one year	**7,731**	6,660
Between one and five years	**17,309**	15,381
After five years	**8,193**	9,640
	33,233	31,681

The total volume of gas to be taken under certain long-term structured contracts depends on a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis The resulting monetary commitment is based on the minimum quantities of gas that the Centrica group is contracted to pay at estimated future prices Contractual commitments which are subject to fulfillment of conditions precedent are excluded

22 Financial instruments

Certain procurement contracts and sales contracts constitute derivative financial instruments These contracts are accounted for under the accrual method Amounts payable or receivable in respect of these derivatives are recognised within cost of sales (for procurement contracts) and revenue (for sales contracts) Changes in the derivatives' fair value are not recognised

In accordance with Statutory Instrument 04/2947 of the Companies Act 1985, the fair values of the Company's derivative financial instruments are analysed below These amounts are not included in the Balance Sheet as the Company has not early adopted FRS26 "Financial Instruments Recognition and Measurement"

22 Financial instruments (continued)

	31 December 2007 £m	31 December 2006 Restated £m
Financial instruments held for trading		
Energy derivatives - assets	932	428
Energy derivatives - liabilities	(1,035)	(1,358)
Energy foreign exchange swaps - assets	2	-

The 2006 amounts have been restated by £43 million due to an error in the original calculations

23 Ultimate parent company and controlling company

GB Gas Holdings Limited is the immediate parent company Centrica plc is the ultimate parent undertaking and controlling company and the only group to consolidate the financial statements of the Company Copies of the financial statements of Centrica plc are available at www centrica com