

GB GAS HOLDINGS LIMITED

DIRECTORS' REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED

31 DECEMBER 2006



REGISTERED NO: 3186121

GB Gas Holdings Limited

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GB Gas Holdings Limited

Directors' report for the year ended 31 December 2006

The Directors present their report and the audited financial statements of GB Gas Holdings Limited ("the Company") for the year ended 31 December 2006

Business review and principal activities

The principal activity of the Company is to act as an investment holding company. The Company also manages the Centrica group property portfolio and recharges the costs incurred to group companies.

Results and dividends

The Company's loss after tax for the year was £129,991,000 (2005: £47,131,000 loss).

No dividends were paid to the parent company during the year (2005: £nil).

At the end of the period the Company had net assets of £2,378,595,000 (2005: £2,508,586,000).

Future outlook

The Directors intend that the Company will continue to act as an investment holding company for the foreseeable future.

Key performance indicators

Given the straightforward nature of the business, the Company's Directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business.

Principal risks and uncertainties

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 for the Centrica plc group, which include those of the Company, are discussed on page 21 of the Group's annual report which does not form part of this report.

Financial risk management

The Directors have identified the need to manage the Company's material financial risks, including foreign exchange, liquidity, credit and interest rate risks. These risks are monitored through a Group Treasury management function which invests surplus funds, mitigates foreign exchange exposure and manages borrowings for Group companies.

Group Treasury also seeks to limit counter-party risk by conducting most of its banking and dealing activities with a limited number of major international banks, whose status is kept under review. Details of the Group financial risk management policy are set out on page 23 of the Centrica plc group Annual Report and Accounts.

Liquidity Risk

The Company finances its operations through a combination of retained profits, new share issues and intercompany loans.

Interest Rate Risk

To the extent that the Company enters into intercompany loan agreements, the Company's exposure to interest rate risk arises on those loans on which interest is charged at an agreed rate. The Company does not participate in interest rate hedging.

GB Gas Holdings Limited

Directors' report for the year ended 31 December 2006 - continued

Credit Risk

Credit risk arises on balances receivable from other parties of the Group. No material exposure is considered to exist in respect of intercompany balances.

Directors

The following served as Directors during the year, and up to the date of signing these financial statements:

P K Bentley	(resigned 17 September 2007)
M S Clare	(resigned 30 September 2006)
I G Dawson	
Sir Roy Gardener	(resigned 30 June 2006)
W S H Laidlaw	(appointed 3 July 2006, resigned 17 September 2007)
N Luff	(appointed 17 September 2007)
L Turner	(appointed 17 September 2007)

Creditor payment policy

The Company aims to pay all of its creditors (none of which were trade creditors) promptly within agreed contract terms.

Charitable and political donations

The Company made no charitable or political donations during the year (2005: £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.

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.

Disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- each director has taken all the steps that he/she ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

GB Gas Holdings Limited

Directors' report for the year ended 31 December 2006 - continued

Statement of directors' responsibilities

The Directors are responsible for preparing the 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 as at the end of the financial year and of the profit or loss of the Company for the financial year.

In preparing those financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently, except for changes arising on the adoption of new accounting standards,
- 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.

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.

This report was approved by the Board on 5 October 2007

For and on behalf of
Centrica Secretaries Limited
Company Secretary

5 October 2007

Registered office
Millstream, Maidenhead Road, Windsor
Berkshire
SL4 5GD

GB Gas Holdings Limited

Independent auditors' report to the member of GB Gas Holdings Limited

We have audited the financial statements of GB Gas Holdings Limited for the year ended 31 December 2006, 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

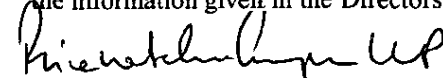
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements.


PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

5 October 2007

GB Gas Holdings Limited

Profit and Loss account for the year ended 31 December 2006

	Notes	2006 £000	2005 £000
Administrative expenses before exceptional items		(65,258)	(58,464)
Exceptional items	4	(13,914)	-
		(79,172)	(58,464)
Other operating income		55,184	57,776
Operating loss	3	(23,988)	(688)
Restructuring costs	4	(19,900)	2,100
Loss on the disposal of fixed asset investments	4	(8,405)	(1,131)
Profit on the disposal of fixed assets	4	7,279	-
		(21,026)	969
Income from shares in group undertakings	5	51	16,161
Interest receivable and similar income	6	8,527	2,435
Interest payable and similar charges	7	(92,001)	(59,377)
Loss on ordinary activities before taxation		(128,437)	(40,500)
Tax on loss on ordinary activities	8	(1,554)	(6,631)
Loss for the financial year	15 & 16	(129,991)	(47,131)

All activities relate to continuing operations

There is no material difference between the loss on ordinary activities before taxation and the retained loss for the year stated above and their historic cost equivalents

There have been no recognised gains and losses during the year other than those shown in the Profit and Loss account therefore no Statement of Total Recognised Gains and Losses has been presented

A statement of movements in equity shareholder funds is shown in note 16

The notes on pages 8 to 19 form part of these financial statements

GB Gas Holdings Limited

Balance Sheet as at 31 December 2006

	Note	2006 £000	2005 £000
Fixed assets			
Tangible fixed assets	9	28,533	34,083
Investments	10	<u>5,276,773</u>	<u>5,277,194</u>
		<u>5,305,306</u>	<u>5,311,277</u>
Current assets			
Debtors (amounts receivable within one year)	11	208,094	961,190
Cash at bank and in hand		404	-
		<u>208,498</u>	<u>961,190</u>
Creditors (amounts falling due within one year)	12	(3,071,335)	(3,699,623)
Net current liabilities		(2,862,837)	(2,738,433)
Total assets less current liabilities		2,442,469	2,572,844
Provisions for liabilities and charges	13	<u>(63,874)</u>	<u>(64,258)</u>
Net assets		<u>2,378,595</u>	<u>2,508,586</u>
Capital and reserves			
Called up share capital	14	1,473	1,473
Share premium account	15	1,567,891	1,567,891
Profit and loss account	15	<u>809,231</u>	<u>939,222</u>
Total equity shareholder funds	16	<u>2,378,595</u>	<u>2,508,586</u>

The financial statements on pages 6 to 19 were approved and authorised for issue by the Board of Directors on 2007 and were signed on its behalf by



Director

The notes on pages 8 to 19 form part of these financial statements

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006

1 Principal accounting policies

Accounting principles

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

Changes in accounting policies

The company has adopted FRS 20 'Share based payments' in these financial statements. The adoption of this standard represents a change in accounting policy although there has been no material impact on adoption.

Basis of preparation

The financial statements have been prepared on a going concern basis, because the Directors of the ultimate parent company, Centrica plc, have indicated their intention to provide sufficient capital to enable the Company to meet its liabilities as they fall due for at least the next twelve months from the date of signing.

Exemptions

The Company is a wholly owned subsidiary undertaking of Centrica plc and is included in the consolidated financial statements of the Centrica Group which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing consolidated financial statements under the terms of Section 228 of the Companies Act 1985. The Company has also taken advantage of the exemptions within Financial Reporting Standard No 1 (Revised) "Cash Flow Statements" from presenting a cash flow statement and Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other group companies.

Investments

Investments held as fixed assets are stated at cost less provision for impairment. The Directors perform impairment reviews when there has been an indication of impairment.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at historic purchase cost less accumulated depreciation and less any provisions for impairment. Freehold land is not depreciated. Other 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 economic lives. The depreciation periods for the principal categories of assets are as follows:

Freehold and leasehold buildings	Up to 50 years
Plant and machinery	5 to 20 years

Fixed asset investments

Fixed asset investments are included in the Balance Sheet at cost, less accumulated provisions for amortisation and any impairment.

Asset impairments

Tangible fixed assets and fixed asset investments 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.

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

1 Principal accounting policies – continued

Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, that can be reliably measured, and it is probable that the Company will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material. Where discounting is used, the increase in provision due to the passage of time is recognised in the Profit and Loss account within interest payable and similar charges.

Other operating income

Property costs are incurred, and therefore recharged, on an accruals basis. The recharge of property costs to group companies is allocated based on direct occupation of the buildings.

Leases

Rentals under operating leases are charged to the Profit and Loss account on a straight line basis over the term of the lease.

Taxation

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

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

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted. Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is recognised in respect of the retained earnings of overseas subsidiaries and associates only to the extent that, at the balance sheet date, dividends have been accrued as receivable or a binding agreement to distribute past earnings in the future has been entered into by the subsidiary or associate.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Property costs

Provision is made for vacant properties, calculated as the lower of the difference between rental costs and sub-let income over the remainder of the leases, and the potential costs to surrender those leases.

GB Gas Holdings Limited

Notes to the financial statement for the year ended 31 December 2006 - continued

1 Principal accounting policies – continued

Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are de-recognised when the Company no longer has the rights to cash flows, the risks and rewards of ownership or control of the asset. Financial liabilities are de-recognised when the obligation under the liability is discharged, cancelled or expires.

Share capital, Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction from the proceeds received.

Cash at bank and in hand, Cash and cash equivalents comprise cash in hand and current balances with banks and similar institutions, which are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value and have an original maturity of three months or less.

Interest-bearing loans and borrowings, All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium.

The Company is exempted by FRS 25 from providing detailed disclosures in respect of its financial instruments because the Company is included within the Group's consolidated accounts and its financial instruments are incorporated into the disclosures in note 33 to the Centrica plc group Annual Report and Accounts.

2 Directors and employees

a) Directors

The Directors received no emoluments during the year ended 31 December 2006 (2005: £nil) in respect of their services to the Company. The Directors are remunerated by other group undertakings in respect of their services to the Group, and this could not be allocated on a reasonable basis to the Company for either the current or prior year.

b) Employees

There were no employees of the Company during the year ended 31 December 2006 (2005: nil).

3 Operating loss

Operating losses are stated after crediting profit on the disposal of fixed assets of £nil (2005: £2,915,000 profit). Administrative expenses included depreciation of £3,686,000 (2005: £2,509,000) and operating lease rentals on properties of £26,276,000 (2005: £28,223,000). The audit fee of £9,000 (2005: £10,000) was borne by Centrica plc in this period and the last.

Other operating income substantially represented fees charged to group companies to recover the costs of the group property portfolio. These charges are allocated based on the occupation of the properties for which these costs are incurred.

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 – continued

4 Exceptional items

	2006 £000	2005 £000
Recognised before operating loss:		
Impairment of fixed asset investment ⁽ⁱ⁾	(13,914)	-
	<u>(13,914)</u>	<u>-</u>
Recognised after operating loss:		
Business restructuring costs ⁽ⁱⁱ⁾	(19,900)	2,100
(Loss)/profit on disposal of fixed asset investments ^{(iii) (iv) (v) (vi) (vii)(viii)}	(8,405)	(1,131)
(Loss)/profit on disposal of fixed asset ^(ix)	7,279	-
	<u>(21,026)</u>	<u>969</u>

(i) Included within administrative expenses is an exceptional cost of £13,914,000 relating to the impairment of the Company's investment in Centrica Insurance Company Limited. This resulted from a review of the underlying assets of the company conducted following the Rough Storage fire insurance claim.

(ii) Business restructuring costs relate to provisions for costs resulting from changes to the group property portfolio. In 2006 this relates specifically to exit costs in relation to the closure of the head office of British Gas Residential Energy a business segment of Centrica Plc.

(iii) During the year the Company recognised a further loss of £1,998,000 in relation to disposal costs associated with One tel. In 2005, the Company recognised a loss of £83,423,000 from the sale of its holdings in the One tel group of companies (comprising Centrica Telecommunications Limited, Telco Holdings Limited and Awardmodel Limited). The Company received cash consideration of £130,245,000, of which £37,125,000 was based on British Gas Trading selling a fixed number of One tel contracts to its customers over the next 3 years. The Company wrote off net loans due from the One tel group of £111,407,000. In addition there were costs of disposal of £27,929,000 relating to legal & professional fees, charges in respect of leases on vacated properties and the marginal costs to British Gas Trading Limited of selling One tel contracts to its customers over the next 3 years.

(iv) During the year the Company exited the contract made for British Gas Trading to sell a fixed number of One tel contracts to its customers over the three years from sale. The provision which had been made to cover the costs of these sales has been released to the Profit and Loss account along with the charge incurred from breaking this contract resulting in a net charge to the Profit and Loss account of £10,024,000.

(v) During the year, the Company recognised a profit of £3,587,000 from the sale of its holdings in Paypoint Limited.

(vi) During the year, the Company recognised a further loss of £423,000 in relation to finalisation of the tax position of The AA Corporation Limited. In 2005, the Company recognised a further loss of £5,804,000 on the sale of The AA Corporation Limited, this comprised a dividend received of £3,153,000 relating to the Company's holding in Centrica Personal Finance Limited, a credit of £1,479,000 in respect of an unused provision for legal and professional costs, offset by a charge of £10,436,000 in respect of a tax covenant in the sale agreement.

(vii) During the year the Company has released a provision relating to sale costs of British Gas Connections Limited resulting in a further profit of £453,000. In 2005, the Company recognised a profit of £77,145,000 from the sale of its holdings in British Gas Connections Limited. The Company received cash consideration of £90,000,000, of which £12,500,000 was transferred to British Gas Services Limited to be recognised on completion of the outstanding order book for pipelines in development at the date of sale. There were also direct costs of sale of £500,000 relating to legal and professional fees.

(viii) In 2005, the Company recognised a profit of £10,951,000 from the sale of its holdings in Accuread Limited. The Company received cash consideration of £11,000,000.

(ix) During the year the Company disposed of a property in Leeds for consideration of £8,750,000 giving rise to a profit on disposal of fixed assets which is outside its normal operating activity.

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

5 Income from shares in group undertakings

	2006	2005
	£000	£000
Dividends received from participating interest	51	16,161
	51	16,161

6 Interest receivable and similar income

	2006	2005
	£000	£000
Interest receivable from subsidiary undertakings	6,347	638
Interest receivable from joint ventures	-	1,797
Preference share dividends receivable from group undertakings	2,180	-
	8,527	2,435

7 Interest payable and similar charges

	2006	2005
	£000	£000
Interest payable to group undertakings	(91,634)	(58,812)
Notional interest on unwinding of deferred and contingent consideration creditors	(367)	(506)
Interest payable on loan notes issued	-	(59)
	(92,001)	(59,377)

8 Taxation on profit/(loss) on ordinary activities

(a) Analysis of tax charge in the period

The tax credit comprises

Current tax:

UK corporation tax at 30% (2005 30%) based on the profit/(loss) for the year

Total current tax

Deferred tax:

Origination and reversal of timing differences

Adjustments in respect of prior years

Total deferred tax

Total tax on profit/(loss) on ordinary activities

2006	2005
£000	£000

-	-
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-	-
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(1,554)	728
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-	(7,359)
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(1,554)	(6,631)
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(1,554)	(6,631)
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GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

8 Taxation on profit/(loss) on ordinary activities- continued

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

	2006	2005
	£000	£000
Profit/(loss) on ordinary activities before tax	(128,437)	(40,500)
Tax on profit/(loss) on ordinary activities at standard UK corporation tax rate of 30% (2005 30%)	(38,531)	(12,150)
Effects of		
Expenses not deductible for tax purposes	5,275	5,330
Income not taxable	(3,183)	(5,724)
UK- UK transfer pricing	(14,814)	(15,690)
Other timing differences	6,621	1,116
Capital allowances in excess of depreciation	363	(388)
Group relief for nil consideration and UK UK inter-company transfer pricing	44,269	27,506
Current tax charge for the year	-	-

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

9 Tangible fixed assets

	Freehold £000	Long Leasehold £000	Short Leasehold £000	Plant & Machinery £000	Total £000
Cost					
1 January 2006	13,611	18,964	9,220	13,422	55,217
Additions	50	-	-	-	50
Disposals	(3,321)	-	-	(34)	(3,355)
Reclassification of assets ⁽ⁱ⁾	15,775	(17,198)	1,406	17	-
31 December 2006	26,115	1,766	10,626	13,405	51,912

Accumulated depreciation

1 January 2006	(6,470)	(8,575)	(1,832)	(4,257)	(21,134)
Charge for the year	(541)	(29)	(630)	(2,486)	(3,686)
Disposals	2,191	-	-	-	2,191
Impairments ⁽ⁱⁱ⁾	(600)	(150)	-	-	(750)
Reclassification of assets ⁽ⁱ⁾	(6,850)	7,770	(920)	-	-
31 December 2006	(12,270)	(984)	(3,382)	(6,743)	(23,379)

Net book value

31 December 2006	13,845	782	7,244	6,662	28,533
31 December 2005	7,141	10,389	7,388	9,165	34,083

(i) During the year the freehold of a long leasehold property with a book cost of £17,198,000 was purchased. Other reclassifications relate to the reanalysis of assets following a review of the fixed asset register.

(ii) Impairments in the year relate to the revaluation and subsequent write down of the carrying value of two properties following an external valuation.

10 Fixed asset investments

	Group undertakings £000	Participating interests £000	Total £000
1 January 2006	5,638,229	-	5,638,229
Additions ^{(i) (ii)}	579,549	600	580,149
Disposals ⁽ⁱ⁾	(566,656)	-	(566,656)
31 December 2006	5,651,122	600	5,651,722

Provisions for impairment

1 January 2006	(361,035)	-	(361,035)
Charge in year ⁽ⁱⁱⁱ⁾	(13,914)	-	(13,914)
31 December 2006	(374,949)	-	(374,949)

Net book value

31 December 2006	5,276,173	600	5,276,773
31 December 2005	5,277,194	-	5,277,194

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

10 Fixed asset investments (continued)

(i) During the year the Company invested £566,656,365 in the share capital of Centrica Jersey Limited which it subsequently disposed of within the Centrica group. The Company also acquired 100% of the share capital of Coastal Limited for £1,190,000 and a 55% stake in Coots Limited for £600,000.

(ii) A further investment in the preference share capital of Centrica Insurance Company Limited of £11,200,000 was also made in the year.

(iii) The impairment charge in the year relates to the impairment of the investment in Centrica Insurance Company Limited after a review of the underlying assets of the Company.

As at 31 December 2006 the Company had interests in the following principal undertakings. This information is given pursuant to Section 231(5) Companies Act 1985.

Principal subsidiary undertakings ⁽ⁱⁱⁱ⁾	Business	Country of incorporation	Proportion of nominal value of ordinary shares held (%)
Accord Energy Limited ⁽ⁱ⁾	Wholesale energy trading	England	100
British Gas Services Limited ⁽ⁱ⁾	Servicing & installation of gas heating systems	England	100
British Gas Trading Limited ⁽ⁱ⁾	Energy supply	England	100
Centrica Barry Limited ⁽ⁱ⁾	Power Generation	England	100
Centrica Energia SL ⁽ⁱⁱ⁾	Energy Supply	Spain	100
Centrica Energy Operations Ltd ⁽ⁱⁱ⁾	Power Generation	England	100
Centrica Gamma Holdings Ltd ⁽ⁱⁱ⁾	Holding Company	England	100
Centrica Generation Limited ⁽ⁱⁱ⁾	Power Generation	England	100
Centrica (Horne & Wren) Limited ⁽ⁱ⁾	Power Generation	England	100
Centrica Insurance Company Ltd ⁽ⁱⁱ⁾	Insurance services	Isle Of Man	100
Centrica Jersey Limited ⁽ⁱⁱ⁾	Holding Company	Jersey	100
Centrica KL Ltd ⁽ⁱ⁾	Power Generation	England	100
Centrica Langage Limited ⁽ⁱ⁾	Power Generation	England	100
Centrica Overseas Holdings Ltd ⁽ⁱ⁾	Holding Company	England	100
Centrica PB Ltd ⁽ⁱ⁾	Power Generation	England	100
Centrica Renewable Energy Ltd ⁽ⁱ⁾	Holding Company	England	100
Centrica Resources Limited ⁽ⁱ⁾	Gas and Oil Production	England	100
Centrica Resources (Armada) Limited ⁽ⁱ⁾	Gas and Oil Production	England	100
Centrica Risk Limited ⁽ⁱⁱ⁾	Non-Life Insurance	Eire	100
Centrica RPS Limited ⁽ⁱ⁾	Power Generation	England	100
Centrica Storage Holdings Ltd ⁽ⁱ⁾	Gas Storage	England	100
Centrica Trading Limited ⁽ⁱ⁾	Holding Company	England	100
Coastal Energy Limited ⁽ⁱ⁾	Clean Coal Generation	England	100
DER Development No 10 Ltd ⁽ⁱⁱ⁾	Gas Production	Canada	100
Direct Energy Marketing Ltd ⁽ⁱⁱ⁾	Energy Supply	Canada	100
Direct Energy Services LLC ⁽ⁱⁱ⁾	Home Services	Canada	100
Dyno Holdings Limited ⁽ⁱ⁾	Home Services	England	100
Electricity Direct (UK) Limited ⁽ⁱ⁾	Energy Supply	England	100
Hydrocarbon Resources Ltd ⁽ⁱⁱ⁾	Gas Production	England	100
Humber Power Limited ⁽ⁱ⁾	Power Generation	England	100
Oxxio NV ⁽ⁱ⁾	Energy Supply	Netherlands	100
Regional Power Generators ⁽ⁱ⁾	Power Generation	England	100

For footnotes (i) – (iii) see page 16

The Directors believe that the book value of investments is not less than the value of the underlying assets

GB Gas Holdings Limited

Notes to the financial statements for the year ended 31 December 2006 - continued

10. Fixed asset investments (continued)

Principal Joint Ventures

Segebel SA ⁽ⁱⁱ⁾	Energy Supply	Belgium	50
Coots Limited ⁽ⁱ⁾	CO ₂ Transportation	England	55

(i) Principal undertakings directly held by the Company

(ii) Principal undertakings indirectly held by the Company

(iii) The information is only given for those subsidiaries which, in the Directors' opinion, principally affect the figures shown in the financial statements

11 Debtors

	Within one year 2006 £000	Within one year 2005 £000
Amounts owed by group undertakings	198,396	911,332
Taxation	110	1,167
Other debtors	63	-
Prepayments and accrued income	9,525	48,691
	208,094	961,190

12 Other creditors (amounts falling due within one year)

	2006 £000	2005 £000
Bank overdraft	-	141
Amounts owed to group undertakings ⁽ⁱ⁾	3,030,751	3,645,658
Other creditors	20,990	19,105
Accruals and deferred income	13,749	19,808
Deferred and contingent consideration ⁽ⁱⁱ⁾	5,845	14,911
	3,071,335	3,699,623

(i) Amounts owed to group undertakings represent various unsecured loans which are repayable upon demand. Balances which attract interest comprise £740,000,000 payable to Centrica Overseas Holdings Limited and £433,000,000 payable to Centrica Beta Holdings Limited both attracting interest at the 3 month LIBOR payable quarterly in arrears and £545,000,000 payable to Centrica Epsilon Limited which attracts interest at the 3 month LIBOR plus 50 basis points also payable in arrears

(ii) Deferred and contingent consideration comprises amounts payable in respect of Centrica Langage Limited (formerly Wainstones Power Limited) £5,844,919 (2005 £7,977,305) and Horne and Wren Limited (formerly Hawkeye Exploration Limited) £nil (2005 £6,934,000)

GB Gas Holdings Limited

Notes to the accounts for the year ended 31 December 2006 - continued

13 Provisions for liabilities and charges

	1 January 2006 £000	Profit & Loss charge £000	Utilised in The year £000	31 December 2006 £000
Deferred Corporation Tax ⁽ⁱ⁾	2,032	1,554	-	3,586
Property costs ⁽ⁱⁱ⁾	25,936	24,946	(1,017)	49,865
One tel disposal costs ⁽ⁱⁱⁱ⁾	25,004	(10,973)	(3,964)	10,067
AA disposal costs ^(iv)	10,436	-	(10,436)	-
Other provisions ^(v)	850	-	(494)	356
Total	64,258	15,527	(15,911)	63,874

(i) Deferred tax liabilities/(assets) comprised:

	Amounts provided		Potential amounts unrecognised	
	2006 £000	2005 £000	2006 £000	2005 £000
Accelerated capital allowances	3,586	3,949	-	-
Other timing differences	-	(1,917)	(14,912)	-
	3,586	2,032	(14,912)	-
Deferred corporation tax liability	3,586	2,032		
Deferred corporation tax asset included in Debtors (note 11)	-	-		
	3,586	2,032		

A number of changes to the UK Corporation tax system were announced in the March 2007 Budget Statement and are expected to be enacted in the 2007 and 2008 Finance Acts. The changes had not been substantively enacted at the balance sheet date and therefore are not included in these financial statements.

The effect of the changes to be enacted in the Finance Act 2007 would be to reduce the deferred tax liability provided at 31 December 2006 by £239,000 and would decrease the losses for the year by the same amount. This decrease in deferred tax is due to the reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008. The deferred tax asset unprovided would decrease by £994,000.

The other changes to be enacted would have no further effects on the deferred tax provided at 31 December 2006.

(ii) The provision relates to surplus properties, and was calculated as the lower of the difference between rental costs and sub-let income over the remainder of the leases and the expected cost to surrender those leases.

(iii) The One tel disposal costs comprise the following, £9,800,000 (2005 £9,800,000) in respect of costs resulting from vacated properties under lease, £nil (2005 £12,804,000) relating to the marginal costs British Gas Trading Limited are expected to incur in selling One tel contracts to their residential customers as this contract has now been exited and £267,000 (2005 £2,400,000) in respect of legal and professional fees.

(iv) The AA disposal provision related to an adjustment to the sale price in respect of a taxation covenant but has been utilised during the year.

(v) Other provisions relates to litigation costs. Any further detailed disclosure would be seriously prejudicial to the Company.

GB Gas Holdings Limited

Notes to the accounts for the year ended 31 December 2006 - continued

14 Called up share capital

	2006 £	2005 £
Authorised:		
5,000,000 ordinary shares of £1 each (2005 5,000,000)	<u>5,000,000</u>	<u>5,000,000</u>
Issued, allotted and fully paid		
1,473,121 ordinary shares of £1 each (2005 1,473,121)	<u>1,473,121</u>	<u>1,473,121</u>

15 Reserves

	Share Premium Account £000	Profit & Loss Account ⁽ⁱ⁾ £000	Total £000
At 1 January 2006	1,567,891	939,222	2,507,113
Retained loss for the financial year	-	(129,991)	(129,991)
At 31 December 2006	<u>1,567,891</u>	<u>809,231</u>	<u>2,377,122</u>

(i) In March 2003 the Institute of Chartered Accountants in England and Wales issued Tech 7/03 'Guidance on the determination of realised profits and losses in the context of distributions under the Companies Act 1985'. As a result of the guidance, the Directors have determined that reserves of £817,629,000 are not currently available for distribution

16 Movements in equity shareholders funds

	2006 £000	2005 £000
Equity shareholder funds as at 1 January	2,508,586	2,555,717
Loss for the financial year	<u>(129,991)</u>	<u>(47,131)</u>
Equity shareholder funds as at 31 December	<u>2,378,595</u>	<u>2,508,586</u>

GB Gas Holdings Limited

Notes to the accounts for the year ended 31 December 2006 – continued

17 Guarantees, commitments and contingencies

a) Operating lease commitments

As at 31 December 2006 the operating lease commitments of the Company for the following year were

Expiring :	2006 £000	2005 £000
Within one year	682	3,506
Between one and five years	5,483	2,865
After five years	20,009	23,378
	26,174	29,749

All operating lease commitments were in respect of property for both the current and prior year

b) Guarantees

At 31 December 2006 the Company had provided guarantees up to a maximum of £216,673,101 (2005 £198,956,889) to various counter-parties in relation to the wholesale energy procurement activities of its subsidiaries

18 Ultimate parent undertaking

The immediate parent undertaking is Centrica Holdings Limited. Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the Company. Copies of the Annual Report and Accounts of Centrica plc may be obtained from www.centrica.com