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**British Gas Direct Employment Limited**

Annual Report

For the year ended 31 December 2002



## **British Gas Direct Employment Limited**

### **Directors' report**

The directors present their report and audited financial statements of British Gas Direct Employment Limited (the "Company") for the year ended 31 December 2002. Comparatives are for the period 26 March to 31 December 2001.

### **Principal activities**

The principal activity of the Company was the provision of direct sales force services for British Gas Trading Limited.

### **Financial results and business review**

The results of the Company are set out on pages 7 and 8.

The Company, which commenced operations in July 2001, recorded an operating profit of £1,423,017 in its first complete year of trading, the year ended 31 December 2002 (period ended 31 December 2001: £393,325).

### **Future developments**

The Company plans to continue to provide direct sales force services to British Gas Trading Limited.

### **Dividends and transfers to reserves**

The directors do not recommend the payment of a final dividend for the period ended 31 December 2002 (period ended 31 December 2001: Nil). In 2002 £1,423,017 has been transferred to reserves (period ended 31 December 2001: £393,325).

### **The Directors**

The following served as directors during the year:

A M Briscoe (resigned 2 February 2002)

M R Alexander

H J Turner

S J Waugh (appointed 2 February 2002)

C J McCann (appointed 2 February 2002)

On 28 February 2003 MR Alexander, C J McCann and S J Waugh resigned as Directors and J N Shears was appointed Director and Chairman.

### **Directors' interests**

At no time did any director, holding office at 31 December 2002, have any interest in the shares of the Company (2001: - ) or any other company in the Centrica plc Group except for interests in shares and options over shares of the ultimate parent company, Centrica plc, as set out below.

Details of the interests of M R Alexander in the shares and options over shares in the ultimate parent company Centrica plc, are shown in the Centrica plc Annual Report for 2002.

## British Gas Direct Employment Limited

### Directors' report (continued)

#### Directors' interests (continued)

The interests of H J Turner, S J Waugh and C J McCann in the ordinary shares in Centrica plc at the year-end are as follows:

#### *Beneficial Interests in Ordinary Shares (i)*

	As at 31 December 2002	As at 31 December 2001*
H J Turner	Nil	Nil
S J Waugh	137,093	156,652
C J McCann	65,616	29,433

(i) The figures above include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the Centrica share incentive plan (SIP). \*\*

#### *Sharesave scheme (i)*

	As at 31 December 2002	Exercised during year	Granted during year	As at 31 December 2001*
H J Turner	Nil	Nil	Nil	Nil
S J Waugh	9,318	Nil	9,318	Nil
C J McCann	4,552	Nil	Nil	4,552

(i) Options over shares in Centrica plc were granted in December 1999, June 2000 and April 2002 at an option price of 127.8, 202.6 and 177.6 pence per share respectively under an all-employee savings-related share option scheme, the Sharesave scheme. \*\*

#### *Executive Share Option Scheme (i)*

	As at 31 December 2002	Exercised during year	Granted during year	As at 31 December 2001*
H J Turner	57,829	Nil	57,829	Nil
S J Waugh	547,707	Nil	293,594	254,113
C J McCann	112,291	Nil	59,386	52,905

(i) Options were granted on 2 April 2002 at an option price of 224.8p under the terms of the Executive share option scheme. \*\*

## British Gas Direct Employment Limited

### Directors' report (continued)

#### *Long Term Incentive Scheme (i) (ii)*

	As at 31 December 2002	Exercised during year	Granted during year	As at 31 December 2001*
H J Turner	56,969	Nil	28,914	28,055
S J Waugh	688,359	(476,496)	110,097	1,054,758
C J McCann	168,052	(34,557)	29,693	172,916

(i) Total allocations as at 31 December 2002 shown above include both notional allocations of shares that are subject to performance conditions and awards of shares that have reached the conclusion of the performance period but are subject to a two year retention period.

(ii) Notional allocations of shares were made on 2 April 2002 under this scheme at a market price at allocation of 227.00 pence.

The middle market price of Centrica plc ordinary share on the last day of trading of 2002 (31 December) was 171 pence. The range during the year was 239 pence (high) and 150 pence (low).

\* Or as at 2 February 2002

\*\* For details of any of the above listed schemes please refer to the 2002 Annual Report for Centrica plc, copies of which can be obtained from the Company Secretary Centrica plc.

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

#### **Creditor payment policy**

It is the Company's policy to:

- 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.

#### **Employment policies**

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

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

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

## **British Gas Direct Employment Limited**

### **Directors' report (continued)**

#### **Employee communications**

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

#### **Directors' and officers' liability**

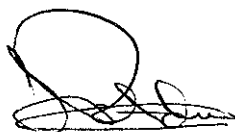
Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc.

#### **Auditors**

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

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

By order of the Board



**Ian Ritchie**

For and on behalf of Centrica Secretaries Limited

Company Secretary

25 July 2003

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire SL4 5GD

## **British Gas Direct Employment Limited**

### **Statement of directors' responsibilities for preparing the financial statements**

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

The directors consider that in preparing the financial statements on pages 7 to 13, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all applicable accounting standards have been followed. The financial statements have been prepared on a going concern basis.

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

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

**British Gas Direct Employment Limited**

**Independent auditors' report to the shareholder of British Gas Direct Employment Limited**

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the principal accounting policies note.

**Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and have been properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the directors' report.

**Basis of audit opinion**

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

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

**Opinion**

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2002 and of the profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

*PricewaterhouseCoopers LLP*

*5 August 2003*

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

**British Gas Direct Employment Limited**

**Profit and Loss Account  
For the year ended 31 December**

	Notes	Year ended 31 December 2002 £	Period ended 31 Dec 2001 £
Turnover	2	29,381,752	7,748,754
Operating costs		<u>(27,958,735)</u>	<u>(7,355,429)</u>
<b>Operating profit</b>	3	<u>1,423,017</u>	<u>393,325</u>
<b>Profit on ordinary activities before taxation</b>		<u>1,423,017</u>	<u>393,325</u>
Tax on profit on ordinary activities	5	<u>-</u>	<u>-</u>
<b>Profit on ordinary activities after taxation For the financial year</b>		<u>1,423,017</u>	<u>393,325</u>
Dividends		<u>-</u>	<u>-</u>
<b>Amount transferred to reserves</b>	9	<u><u>1,423,017</u></u>	<u><u>393,325</u></u>

There are no differences between the profit on ordinary activities before taxation and the retained profit for the year stated above and their historical cost equivalents.

There are no recognised gains or losses other than the profit for the financial year.

The notes on pages 9 to 13 form part of these financial statements.

**British Gas Direct Employment Limited**

**Balance Sheet  
As at 31 December**

	<b>Note</b>	<b>Year ended 31 December 2002 £</b>	<b>Period ended 31 December 2001 £</b>
<b>Current assets</b>			
Debtors (amounts falling due within one year)	6	4,472,020	4,947,837
<b>Creditors: (amounts falling due within one year)</b>	7	<u>(2,655,676)</u>	<u>(4,554,510)</u>
<b>Net current assets</b>		<u>1,816,344</u>	<u>393,327</u>
<b>Total assets less current liabilities</b>		<u>1,816,344</u>	<u>393,327</u>
<b>Net assets</b>		<u>1,816,344</u>	<u>393,327</u>
<b>Capital and reserves – equity interests</b>			
Called up share capital	8	2	2
Profit and loss account	9	<u>1,816,342</u>	<u>393,325</u>
<b>Total shareholder funds</b>	10	<u>1,816,344</u>	<u>393,327</u>

The financial statements were approved by the Board of Directors on 25 July 2003 and were signed on its behalf by:



J N Shears  
Director

The notes on pages 9 to 13 form part of these financial statements.

## **British Gas Direct Employment Limited**

### **Notes to the accounts**

#### **1. Principal accounting policies**

##### **Accounting principles**

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

##### **Basis of preparation**

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited, which is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within FRS 1, Cash Flow Statements, from presenting a cash flow statement and within FRS 8, Related Party Disclosures, from disclosing transactions with other group companies.

##### **Turnover**

Turnover comprises income received from other Group companies for the supply of direct sales force staff.

##### **Pensions**

Pensions are accounted for in accordance with SSAP24, Pension Costs. Employees of the Company are eligible to join the Centrica "Flexible Choice" Pension Scheme, a defined contribution scheme. Defined contribution scheme pension costs are charged to the profit and loss account and represent the amount of contributions payable to the scheme in respect of the accounting period.

##### **Taxation**

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

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

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

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

Deferred tax is measured on a non-discounted basis.

**British Gas Direct Employment Limited**

**Notes to the accounts (continued)**

**2. Other operating income**

	<b>Year ended 31 December 2002</b>	<b>Period ended 31 December 2001</b>
	<b>£</b>	<b>£</b>
Recharges to group undertakings	<u>29,381,752</u>	<u>7,748,754</u>

**3. Operating profit**

Operating profit is stated after charging:

	<b>Year ended 31 December 2002</b>	<b>Period ended 31 December 2001</b>
	<b>£</b>	<b>£</b>
Staff costs	26,697,615	7,178,988
Other operating charges	<u>1,261,120</u>	<u>176,441</u>
	<u>27,958,735</u>	<u>7,355,429</u>

Auditors remuneration of £5,000 was paid by British Gas Trading Limited, another Group company (period ended 31 December 2001: £5,000).

**4. Directors and employees**

**a) Directors' emoluments**

No director received emoluments in respect of his services to the Company.

	<b>Year ended 31 December 2002</b>	<b>Period ended 31 December 2001</b>
	<b>£</b>	<b>£</b>
<b>b) Staff costs during the year (including directors)</b>		
Wages and salaries	24,063,891	6,446,842
Social security costs	2,357,050	661,524
Other pension costs	<u>276,674</u>	<u>70,622</u>
	<u>26,697,615</u>	<u>7,178,988</u>

**Average number of employees during the year**

The average number of employees, all employed in the United Kingdom, during the year was 788 (period ended 31 December 2001: 260). All employees were sales staff.

**British Gas Direct Employment Limited**

**Notes to the accounts (continued)**

**5. Tax on profit on ordinary activities**

	<b>Year ended 31 December 2002 £</b>	<b>Period ended 31 December 2001 £</b>
<b>The tax charge comprises:</b>		
Total Current Tax	-	-
Deferred Tax	-	-
<b>Total tax on profit on ordinary activities</b>	<b>-</b>	<b>-</b>

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

	<b>Year ended 31 December 2002 £</b>	<b>Period ended 31 December 2001 £</b>
<b>Profit on ordinary activities before tax</b>	<b>1,423,017</b>	<b>393,325</b>
Tax on profit on ordinary activities at standard UK Corporation tax rate of 30% (period ended 31 December 2001: 30%)	426,905	117,998
Effects of:		
Permanent disallowables	725	-
Group relief received for no consideration	(427,630)	(117,998)
<b>Total tax on profit on ordinary activities</b>	<b>-</b>	<b>-</b>

**6. Debtors (amounts falling due within one year)**

	<b>Year ended 31 December 2002 £</b>	<b>Period ended 31 December 2001 £</b>
Amounts owed by group undertakings	4,464,379	4,947,105
Other debtors	7,641	732
	<b>4,472,020</b>	<b>4,947,837</b>

**British Gas Direct Employment Limited**

**Notes to the accounts (continued)**

**7. Creditors (amounts falling due within one year)**

	Year ended 31 December 2002 £	Period ended 31 December 2001 £
Amounts owed to group undertakings	-	2,349,603
Other creditors	1,884,675	1,746,738
Accruals and deferred income	771,001	458,169
	<u>2,655,676</u>	<u>4,554,510</u>

**8. Called up share capital**

	Year ended 31 December 2002 £	Period ended 31 December 2001 £
<b>Authorised</b>		
100,000 ordinary shares of £1 each	<u>100,000</u>	<u>100,000</u>
<b>Called up, allotted and fully paid</b>		
2 ordinary shares of £1 each	<u>2</u>	<u>2</u>

**9. Reconciliation of movements in reserves**

	<b>Profit and Loss £</b>
As at 1 January 2002	393,325
Profit for the financial year	<u>1,423,017</u>
As at 31 December 2002	<u>1,816,342</u>

**10. Reconciliation of movements in shareholder funds**

	Year ended 31 December 2002 £	Period ended 31 December 2001 £
Opening shareholder funds	393,327	-
Net proceeds of issue of ordinary share capital	-	2
Profit on ordinary activities after taxation for the financial period	<u>1,423,017</u>	<u>393,325</u>
Closing shareholder funds	<u>1,816,344</u>	<u>393,327</u>

## **British Gas Direct Employment Limited**

### **Notes to the accounts (continued)**

#### **11. Pensions**

Employees of the Company are eligible to join the Centrica "Flexible Choice" Pension Scheme, a defined contribution scheme.

The aggregate contributions to the scheme during the year were £276,674 (period ended 31 December 2001: £70,622). The amount outstanding at the balance sheet date was £51,305 (period ended 31 December 2001: £25,500).

#### **12. Ultimate parent company**

Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the Company. Copies of the Annual Report of Centrica plc may be obtained from the Company Secretary, Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire, SL4 5GD.