

British Gas Direct Employment Limited

Report and Financial Statements
For the year ended 31 December 2005



Registered No: 4187128

BRITISH GAS DIRECT EMPLOYMENT LIMITED

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British Gas Direct Employment Limited

Directors' Report

The Directors present their report and the audited Financial Statements of British Gas Direct Employment Limited (the "Company") for the year ended 31 December 2005.

Principal activities and review of business

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

Financial results and dividends

The results of the Company are set out on page 7.

During the year the Company made a profit for the financial year of £2,383,000 (2004: £644,000).

No dividends were paid for the year ended 31 December 2005 (2004: £nil).

Risk management

The Directors do not consider that the Company has any significant financial risks. The Company has a single customer, British Gas Trading Limited and all payments to employees and suppliers are made from other Centrica Group bank accounts.

Directors

The following served as Directors during the year:

H J Turner

M L Turner

On 3 January 2006, A C J Cameron was appointed as a Director of the Company. On the same date M L Turner resigned as a Director of the Company.

At no time during the year ended 31 December 2005, did any Director have any interests in the shares of the Company or any other company within the Centrica group, except for interests in, and options over, the shares and interests of the ultimate parent company, Centrica plc.

British Gas Direct Employment Limited

Directors' Report (continued)

Directors' interests in shares (As defined by section 325 of the Companies Act 1985)

The Directors with interests in and options over the ordinary shares of Centrica plc at the end of the year are as follows:

Beneficial interests in ordinary shares

	As at 31 December 2004	As at 31 December 2005
H J Turner	-	-
M L Turner	-	16,607

The above figures include shares appropriated under the terms of the Centrica Share Incentive Plan.

Centrica Sharesave scheme

	As at 31 December 2004	Options granted during the year	Options exercised during the year	Options lapsed during the year	As at 31 December 2005
H J Turner	7,058	1,010	-	-	8,068
M L Turner	15,336	-	-	-	15,336

Options over shares in Centrica plc were granted on 6 April 2005 at an option price of 187.5 pence per share.

Long-term Incentive Scheme

	As at 31 December 2004	Allocations made during the year	Allocations vested during the year	Allocations lapsed during the year	As at 31 December 2005
H J Turner	108,444	33,785	22,177	6,737	113,315
M L Turner	134,739	49,551	28,148	8,551	147,591

Total allocations as at 31 December 2005 shown above include allocations of shares that are subject to challenging performance conditions. At the end of the performance period the Total Shareholder Return of Centrica plc will be assessed against that of the relevant LTIS comparator group. If, and to the extent that the performance conditions are met, the relevant number of shares will be released to the Directors at the Trustee's discretion as soon as practicable thereafter.

A conditional allocation of shares was made on 1 April 2005 at a price of 228 pence per share.

British Gas Direct Employment Limited

Directors' Report (continued)

Centrica Executive Share Option Scheme

	As at 31 December 2004	Options granted during the year	Options exercised during the year	Lapsed	As at 31 December 2005
H J Turner	213,484	67,570	-	-	281,054
M L Turner	266,324	99,103	-	-	365,427

Under the terms of the Executive Share Option Scheme a grant of options over shares was made on 1 April 2005 at an option price of 228.65 pence per share.

Details of the ultimate parent company's Sharesave Scheme, Executive Share Option scheme and LTIS can be found in the 2005 accounts of Centrica plc, copies of which can be obtained from www.centrica.com.

The middle market price of Centrica plc ordinary share on the last day of trading of 2005 (30 December) was 254.75 pence. The range during the year was 264.75 pence (high) and 217.50 pence (low).

As at 31 December 2005, nil shares and 2,591 shares (1 January 2005: 6,370,264 and 2,548) were held by the respective Trustees of employee share trusts for the purpose of the LTIS and Share Incentive Plan. As with other employees, the Directors are deemed to have a potential interest in those shares, being beneficiaries under the trust.

There were no contracts of significance during or at the end of the financial year to which the Company or any subsidiary and association undertakings is a party and in which any Director is or was materially interested.

Related party transactions

The Company has taken advantage of the exemptions within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other Centrica group companies. There have been no other disclosable related party transactions during the year (2004: £nil).

Creditor payment policy

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

Political and charitable donations

The Company made no political or charitable donations during the year (2004: £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 Direct Employment Limited

Directors' Report (continued)

Employment policies

During 2005, the Company employed an average of 1,285 people, all employed in the United Kingdom (2004: 613).

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 Direct Employment Limited business. Not all of these employees have service contracts with British Gas Direct Employment 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.

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 disabilities, carers and lone parents. To the extent possible, people with disabilities are offered the same employment training, career development and promotion opportunities as other employees. The Centrica Group, to which British Gas Direct Employment Limited belongs, is actively working with a number of organisations in the diversity arena including the Employers' Forum on Disability, the Employers' Forum on Age, Race for Opportunity, Carers UK, Opportunity Now, Working Families and Jobcentre Plus.

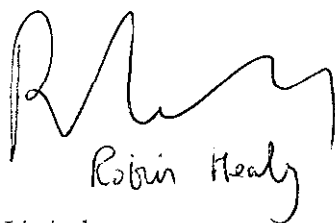
The Company's business principles and policies set out standards of behaviour expected of its employees in conducting business in an ethical way.

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 Direct Employment Limited belongs, encourages employee share ownership by operating tax authority-approved share schemes open to all eligible employees, including Executive Directors.

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 11 July 2006.



Robin Healy

Centrica Secretaries Limited

Company Secretary

11 July 2006

Registered office:

Millstream

Maidenhead Road

Windsor

Berkshire

SL4 5GD

British Gas Direct Employment Limited

Statement of Directors' Responsibilities

Company law requires the Directors to prepare Financial Statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss 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 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.

Independent Auditors' Report to the Shareholder of British Gas Direct Employment Limited

We have audited the financial statements of British Gas Direct Employment Limited for the year ended 31 December 2005 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 Annual Report and 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 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 other transactions is not disclosed.

We read other information contained in this report, and consider whether it is consistent with the audited financial statements. This other information comprises only the Directors' Report. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT
11 July 2006

British Gas Direct Employment Limited

**Profit and Loss Account
Year ended 31 December**

	Notes	2005 £'000	2004 £'000
Turnover	2	44,360	22,445
Operating costs	3	(42,253)	(21,525)
Profit on activities before taxation		2,107	920
Taxation on profit on ordinary activities	5	276	(276)
Profit for the financial year	9	2,383	644

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

There have been no recognised gains or losses during the year other than those shown in the profit and loss account.

All the activities relate to continuing operations.

The notes on pages 10 to 12 form part of these Financial Statements.

British Gas Direct Employment Limited

Balance Sheet
31 December

	Note	2005 £000	2004 £000
Current assets			
Debtors (amounts falling due within one year)	6	10,442	6,974
Creditors (amounts falling due within one year)	7	<u>(4,486)</u>	<u>(3,401)</u>
Net current assets		<u>5,956</u>	<u>3,573</u>
Total assets less current liabilities		<u>5,956</u>	<u>3,573</u>
Net assets		<u>5,956</u>	<u>3,573</u>
Capital and reserves – equity interests			
Called up share capital	8	-	-
Profit and loss account	9	<u>5,956</u>	<u>3,573</u>
Total equity shareholder funds	10	<u>5,956</u>	<u>3,573</u>

The financial statements on pages 7 to 12 were approved and authorised for issue by the Board of Directors on 14 July 2006 and were signed on its behalf by:



Director

The notes on pages 10 to 12 form part of these Financial Statements.

British Gas Direct Employment Limited

Notes to the 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, from presenting a cash flow statement; and within FRS 8, Related Party Disclosures, from disclosing transactions with other group companies that are 90% owned or greater.

Turnover

Turnover comprises income received from other Group companies for the supply of direct sales force staff. All turnover arose in the United Kingdom.

Pensions

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.

British Gas Direct Employment Limited

Notes to the Financial Statements (continued)

2. Turnover

	2005 £000	2004 £000
Recharges to group undertakings	<u>44,360</u>	<u>22,445</u>

3. Operating Costs

The Company's operating costs, which have been charged to the profit and loss account, comprise:

	2005 £000	2004 £000
Employee costs (note 4b)	41,340	20,604
Administration Expenses	<u>913</u>	<u>921</u>
	<u>42,253</u>	<u>21,525</u>

Auditor's remuneration of £5,000 was borne by British Gas Trading Limited, another group company, and was not recharged (2004: £5,000).

4. Directors and employees

a) Directors' emoluments

None of the Directors received emoluments in respect of their services to the Company during the year (2004: £nil).

	2005 £000	2004 £000
b) Employee costs		
Wages and salaries	37,259	18,327
Social security costs	3,753	2,004
Other pension and retirement benefits costs	328	255
Share incentive plan	-	18
	<u>41,340</u>	<u>20,604</u>

c) Average number of employees during the year

	2005 Number	2004 Number
Sales Staff	<u>1,285</u>	<u>613</u>

d) Pensions

As at 31 December 2005 substantially all of the Company's employees were eligible to join the Centrica Flexible Choice Pension Scheme. This scheme is a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounts to £328,354 (2004: £254,889). The amount outstanding at the balance sheet date was £67,307 (2004: £39,068). The Centrica Flexible Choice scheme commenced in July 1999 and replaced a previous defined contribution scheme.

British Gas Direct Employment Limited

Notes to the Financial Statements (continued)

5. Tax on profit on ordinary activities

	2005	2004
	£000	£000
The tax charge comprises:		
Total Current Tax	-	276
Adjustments in respect of prior years *	<u>(276)</u>	<u> </u>
Total tax on profit on ordinary activities	<u><u>(276)</u></u>	<u><u>276</u></u>

* The adjustment in respect of prior years relates to the effect of group relief.

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:

	2005	2004
	£000	£000
Profit on ordinary activities before tax	<u>2,107</u>	<u>920</u>
Tax on profit on ordinary activities at standard UK Corporation tax rate of 30% (2004: 30%)	632	276
Effects of:		
Group relief	(788)	-
UK-UK Transfer pricing adjustment	156	-
Adjustment to tax charge in respect of previous periods	<u>(276)</u>	<u> </u>
Current tax charge for the year	<u><u>(276)</u></u>	<u><u>276</u></u>

There is no liability for deferred tax (either recognised or unrecognised) in either current or prior year.

6. Debtors (amounts falling due within one year)

	2005	2004
	£000	£000
Amounts owed by group undertakings	10,408	6,939
Prepayments and accrued income	<u>34</u>	<u>35</u>
	<u><u>10,442</u></u>	<u><u>6,974</u></u>

British Gas Direct Employment Limited

Notes to the Financial Statements (continued)

7. Creditors (amounts falling due within one year)

	2005	2004
	£000	£000
Other creditors	1,320	1,723
Taxation	-	276
Accruals	3,166	1,402
	4,486	3,401

8. Called up share capital

	2005	2004
	£000	£000
Authorised		
100,000 ordinary shares of £1 each	100	100
	£	£
Issued, allotted and fully paid		
2 ordinary shares of £1 each	2	2

9. Reserves

	Profit and Loss £000
1 January 2005	3,573
Profit for the financial year	2,383
31 December 2005	5,956

10. Movements in equity shareholder funds

	2005	2004
	£000	£000
1 January	3,573	2,929
Profit for the financial year	2,383	644
31 December	5,956	3,573

11. Ultimate parent company

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