Centrica Telecommunications Limited

Directors' Report and Financial Statements

For the year ended

31 December 2004

Registered number: 4226697

Contents

Directors' report for the year ended 31 December 2004

The directors present their report and audited accounts of Centrica Telecommunications Limited (the "Company") for the year ended 31 December 2004. Comparatives are for the year ended 31 December 2003.

Principal activities

The Company's principal activity during the period was the provision of telecommunications services to homes and businesses in the UK under the brand names British Gas Communications and One.Tel.

Business review

Despite aggressive competitor activity during the year, turnover grew by 11% to £261.4 million (31 December 2003: £234.9 million). This was a direct result of an increase in monthly average revenue per user (ARPU) primarily driven from an increase in mix of Carrier PreSelect customers who now form 70% of the active customer base.

Operating loss for 2004 was £6.3 million; a significant improvement on the £13.1 million operating loss for the 12 months ended 31 December 2004 due to the beneficial impact of the cost reductions taken earlier in the year.

The Company successfully marketed bundled product offerings during 2004, being the first to bundle a 512k broadband product with unlimited local and national fixed line calls within the UK. As a result the broadband customer base has increased four-fold and now stands at 50,000 subscribers.

The Company welcomed the findings of Ofcom's investigation into BT's pricing, following our complaint, which resulted in a rebalancing of the cost of local call conveyancing, backdated to July 2004. In their Telecoms Strategic Review published on 1 November, Ofcom highlighted the shortcomings that have held back competition in the telecoms sector. We are particularly pleased to see that the onus is now on BT to provide solutions in all of the areas lacking equivalence between BT and its competitors, with the ultimate threat of an investigation under the Enterprise Act or subsequent referral to the Competition Commission should their proposals not prove effective.

Financial results

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

The Company recorded a loss after taxation of £7.1 million for the year ended 31 December 2004 (31 December 2003: £14.2 million loss).

Dividends and transfers to reserves

No dividends were paid for the year ended 31 December 2004 (31 December 2003: £nil).

Future developments

In September 2004, GB Gas Holdings Limited purchased 100% of the share capital of Telco Holdings Limited, the holding company of the indirect telecoms provider Telco Global. The majority of Telco Global's trade was transferred to Centrica Telecommunications Limited on 1 January 2005. Furthermore, Telco Global brings expertise in the field of Voice Over Internet Protocol (VOIP) services enabling the Company to compete in this market as the use of this technology grows over the next few years.

Directors' report for the year ended 31 December 2004

Directors

The following served as directors during the full period

I R S El-Mokadem

I G Dawson

R Leclercq

Directors' interests

At no time during the year did any director have any interest in the shares of the Company (31 December 2003: nil) or any other company within the Centrica plc group except for interests in shares and options over the shares of the ultimate parent company, Centrica plc.

As at 31 December 2004, I G Dawson was also a director of GB Gas Holdings Limited an intermediate holding company of the Company. The interests of I G Dawson are therefore disclosed in the accounts of GB Gas Holdings Limited.

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

Directors' interests in shares

(As defined by section 325 of the Companies Act 1985)

On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of 9 new ordinary shares of 6 $^{14/81}$ pence per share for every 10 existing ordinary shares of 5 $^{5/9}$ pence per share. Shares shown as 31 December 2003 are on a pre-consolidation basis and those shown at 31 December 2004 are shown on a post-consolidation basis.

Beneficial interest in ordinary shares

	As at 31 December 2003	As at 31 December 2004
I R S El-Mokadem	47,234	59,857
R Leclercq	-	13,493

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

Centrica Sharesave Scheme

	As at 31 December 2003	Options granted during the year	Options exercised during the year	Options lapsed	At 31 December 2004
I R S El-Mokadem	6,271	3,509	3,448	-	6,332
R Leclercq	8,823	-	-	-	8,823

Options were granted under the terms of the Centrica Sharesave scheme on 6 April 2004 at an option price of 182.6 pence per share.

Directors' report for the year ended 31 December 2004

Long-term Incentive Scheme

	As at 31 December 2003	Granted during the year	Exercised during the year	Reduction in allocations	As at 31 December 2004
I R S El-Mokadem	228,283	55,407	59,250	10,979	213,461
R Leclercq	109,045	35,128	22,871	7,624	113,678

Total allocations as at 31 December 2004 shown above include allocations of shares that are subject to performance conditions and allocation of shares that have reached the conclusion of the relevant three-year performance period but are subject to a two-year retention period.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2004 at a price of 225.6 pence per share.

Centrica Executive Share Option Scheme

	As at 31 December 2003	Options granted during the year	Options exercised during the year	As at 31 December 2004
I R S El-Mokadem	300,376	98,236	-	398,612
R Leclercq	92,087	67,247	-	159,334

Under the terms of the scheme a further grant of options was made on 18 March 2004 at an option price of 223.95 pence per share .

Options were granted under the terms of the ultimate parent company's Sharesave scheme and Executive Share Option scheme , and allocations made under the terms of the Long-term Incentive scheme. Details of these schemes and the Share Incentive Plan can be found in the 2004 accounts of Centrica plc, copies of which can be obtained from the Secretariat Department of Centrica plc or from www.centrica.com.

The middle market price of a Centrica plc ordinary share on the last day of trading of 2004 (31 December) was 236.25 pence. The range during the year was 256.25 pence (high) and 196.94 pence (low).

As at 31 December 2004, 6,400,000 shares (1 January 2004: 21,200,505) were held by the trustee of the employee share trust under the LTIS rules. 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 associated 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 (2003: £nil).

Creditor payment policy

The Company aims to pay all of its creditors in accordance with the policies set out below:

i) agree the terms of payment at the commencement of business with that supplier;

ii) ensure that suppliers are aware of the terms of payment; and

iii) pay in accordance with contractual and other legal obligations.

The Company had 18 days purchases outstanding at 31 December 2004 (31 December 2003 – 19 days' purchases) based on an average daily amount invoiced by suppliers during the year ended 31 December 2004.

Directors' report for the year ended 31 December 2004

Employment policies

The Company is committed to pursuing an active Equal Opportunities policy covering recruitment and selection, training and development, appraisal and promotion. The Company recognises the diversity of its employees, its customers and the community at large and seeks to use employees' talents and abilities to the full. This approach extends to the fair treatment of people with disabilities, in relation to their recruitment, training and development. Full consideration would be given to the retention of staff who become disabled during employment, should this occur.

Employee communications

The Company is committed to effective communications, which it maintains through briefing sessions, company intranet sites and other various channels. In addition the Company has procedures for the timely and accurate communication of financial results and other significant business issues to its employees. Formal communications with trade unions take place through regular meetings between representatives from the Company and trade unions.

Political and charitable donations

The Company continued to work with our charity partner The Samaritans until July 2004. In August the Company announced a new long-term charity partner, TreeHouse; an educational charity for children with severe autism. The objectives here are to develop a national presence for TreeHouse producing incremental income generating ventures and creating opportunities for One.Tel employees to learn new skills. Cause-related marketing initiatives are being developed to aid fundraising including the continuation of the directory enquiries service donation of 1p for every call made to our directory enquiries service, 118 111.

Charitable donations in the UK during the year amounted to £101,800 (31 December 2003: £15,000). In line with group policy, no donations were made for political purposes.

Directors' and officers' liability

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

Auditors

PricewaterhouseCoopers LLP have expressed their willingness to continue in office 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.

This report was approved by the Board on 13 October 2005.

Robin Healy

for and on behalf of
Centrica Secretaries Limited
Company Secretary

Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

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 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;
- 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 members of Centrica Telecommunications Limited

We have audited the accounts which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the report and the accounts 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 accounts 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 in to 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 accounts give a true and fair view and are properly prepared in accordance with the United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the accounts, 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 report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounts. 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 accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, 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 accounts 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 accounts.

Opinion

In our opinion the accounts give a true and fair view of the state of the Company's affairs as at 31 December 2004 and of its loss 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
London

13 October 2005

Profit and loss account for the year ended 31 December 2004

	Notes	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Turnover	3	**261,400**	234,924
Cost of sales		**(135,170)**	(122,970)
Gross profit		**126,230**	111,954
Administrative expenses excluding goodwill and exceptional items		**(124,529)**	(121,454)
exceptional items	8	**(4,391)**	-
goodwill		**(3,637)**	(3,637)
Administrative expenses including goodwill and exceptional items		**(132,557)**	(125,091)
Operating profit/(loss) before goodwill and exceptional items		**1,701**	(9,500)
exceptional items	8	**(4,391)**	-
goodwill		**(3,637)**	(3,637)
Operating loss including goodwill and exceptional items	4	**(6,327)**	(13,137)
Loss on sale of fixed assets		**(32)**	(35)
Loss on ordinary activities before interest		**(6,359)**	(13,172)
Net interest payable	6	**(722)**	(1,058)
Loss on ordinary activities before taxation		**(7,081)**	(14,230)
Tax on ordinary activities	7	**-**	-
Loss on ordinary activities after taxation for the financial period		**(7,081)**	(14,230)

All activities during the year were from continuing operations.

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

There is no difference between the loss on ordinary activities before taxation and the retained loss for either year as stated above and their historical cost equivalent.

The notes on pages 9 to 19 form part of these financial statements.

Balance sheet as at 31 December 2004

	Notes	At 31 December 2004 £'000	At 31 December 2003 £'000
Fixed assets			
Intangible assets	9	**41,825**	45,462
Tangible assets	10	**16,805**	22,436
		58,630	67,898
Current assets			
Stocks	11	**213**	99
Debtors (amounts falling due within one year)	12	**33,854**	30,134
Cash at bank and in hand		**572**	711
		34,639	30,944
Creditors (amounts falling due within one year)	13	**(149,392)**	(148,402)
Net current liabilities		**(114,753)**	(117,458)
Total assets less current liabilities		**(56,123)**	(49,560)
Creditors (amounts falling due after more than one year)	14	**(8,723)**	(13,059)
Provisions for liabilities and charges	15	**(6,223)**	(1,369)
Net liabilities		**(71,069)**	(63,988)
Capital and reserves			
Called up share capital	16	**25,000**	25,000
Profit and loss account	17	**(96,069)**	(88,988)
Total equity shareholder deficit	18	**(71,069)**	(63,988)

The financial statements pages 7 to 19 were approved by the board of directors on 13 October 2005 and were signed on its behalf by:

R Leclercq
Director

The notes on pages 9 to 19 form part of these financial statements.

Notes to the financial statements for the year ended 31 December 2004

1. Principal accounting policies

Basis of preparation

The directors believe that the going concern basis is applicable for the preparation of the accounts as it is Centrica plc's intention to provide financial support to the Company.

Accounting principles

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

Exemptions

The Company is a wholly owned subsidiary of GB Gas Holdings Limited, itself a wholly owned subsidiary of Centrica plc, and is included in the consolidated accounts of Centrica plc. Consequently, 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. As an intermediate parent, the Company has also taken advantage of the exemption from preparing and delivering to the Registrar of Companies consolidated accounts.

Turnover

For subscription based services with recurring fees, turnover is recognised on a time basis over the period covered by each fee. For usage based services, turnover is recognised on the basis of services provided.

Adjustments are made to defer the relevant portion of unearned amounts billed in advance or amounts unbilled for services provided at the end of each period.

Cost of sales

Cost of sales include line rental and carrier costs, in order to process customer calls to their final destination.

Employee Share Schemes

As a subsidiary of Centrica plc, the company participates in a number of group employee share schemes. These are detailed in the Annual Report and Accounts for Centrica plc.

As permitted by UITF 17 (Revised 2003), the company does not recognise the difference between market value and option price to employees in relation to the UK sharesave scheme within the profit and loss account, on the basis that the schemes are offered to all employees. The costs of potential share and option awards under the long term incentive scheme and the executive share option scheme are charged to the profit and loss account over the period to which the performance criteria of each allocation relates. Cost is defined as the difference between the contribution receivable from employees and the market value at the date of grant. Cost also includes provision for employer's National Insurance charges expected to arise at exercise dates.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at closing rates of exchange. Exchange differences are taken to the profit and loss account.

Notes to the accounts for the year ended 31 December 2004 (continued)

1. Principal accounting policies (continued)

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 subsidiary undertaking (including unincorporated businesses), joint venture or associate, 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 a period of 15 years.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment. Externally sourced software and related software development expenditure is capitalised.

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:

Computer equipment	3 to 5 years
Telecommunications related equipment	5 to 7 years
Fixtures and fittings	5 years

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

Leases

Assets held under finance leases are capitalised and included in tangible fixed assets at cost. The obligations relating to finance leases, net of finance charges in respect of future periods, are included within creditors. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as incurred.

Stocks

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

Pensions

Pensions are accounted for in accordance with SSAP24, Pension costs. The Company participates in group defined benefit pension schemes and contributions and pension costs are based on pension costs across the Group as a whole.

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as a provision in the balance sheet. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs, and the straight-line method is applied for amortising surpluses and interest.

Contributions to defined contribution schemes are charged to the profit and loss account in the period in which they are incurred.

Notes to the accounts for the year ended 31 December 2004 (continued)

1. Principal accounting policies (continued)

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 the 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 accounts that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the accounts.

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 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 the 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.

2. Change in accounting policy

The company has implemented UITF 17 (Revised 2003) from 1 January 2004. UITF 7 (2003) required the minimum profit and loss charge to be determined as the intrinsic value of the share options granted. Previously the charge was based on either intrinsic value or, where purchases of shares were made by an ESOP trust at fair value, by reference to the cost of shares available for the award less any contributions payable by the employees. The implementation of UITF 17 (Revised 2003) had no material impact on the company's previously reported profits and losses.

Notes to the accounts for the year ended 31 December 2004 (continued)

3. Segmental reporting

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

4. Operating loss

	2004 £'000	2003 £'000
Operating loss is stated after charging:		
Amortisation of goodwill	**3,637**	3,637
Depreciation:		
Owned assets	**7,221**	9,978
Leased assets	**1,373**	1,373
Operating lease rentals:		
Other	**79**	88
Auditors' remuneration:		
Statutory audit	**86**	83
Exceptional items (see note 8)	**4,391**	-

5. Directors and employees

Emoluments of Directors

Two directors received emoluments from Centrica plc, details of which are shown in the Centrica plc Annual Report for 2004 and accounts of GB Gas Holdings Limited. Details of emoluments received from the Company by the two directors are as follows:

	2004 £'000	2003 £'000
Aggregate emoluments	**633**	580

Of these two directors, the emoluments of the highest paid director, excluding pension contributions were £363,410 (31 December 2003: £342,527). Retirement benefits are accruing to the two directors under a defined benefit pension scheme. The accrued pension of the highest paid director as at 31 December 2004 was £37,870 (31 December 2003: £28,615). The accrued lump sum of the highest paid director as at 31 December 2004 was £29,647 (31 December 2003: £25,062). Company contributions paid to a defined contribution pension scheme in respect of the two directors was £nil (31 December 2003: £nil)

Notes to the accounts for the year ended 31 December 2004 (continued)

5. Directors and employees (continued)

Employee information

	2004 £'000	2003 £'000
Staff costs during the period (including directors)		
Wages and salaries	**31,440**	33,492
Social security costs	**3,219**	3,257
Other pension cost and retirement benefits costs	**1,924**	1,908
Long term incentive scheme	**463**	741
	37,046	39,398

The average monthly number of persons (including executive directors) employed by the Company during the period was:

By activity	Year ended 31 December 2004 Number	Year ended 31 December 2003 Number
Customer relationship and service delivery	**945**	1,028
Sales and marketing	**159**	153
Administration	**124**	163
	1,228	1,344

6. Interest payable and similar charges

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Finance leases	**722**	1,058

Notes to the accounts for the year ended 31 December 2004 (continued)

7. *Taxation on loss on ordinary activities*

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:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Loss on ordinary activities before tax	**(7,081)**	(14,230)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (at 31 December 2002: 30%)	**(2,124)**	(4,269)
Effects of:		
Expenses not deductible for tax purposes	**1,096**	1,096
Utilisation of timing differences	**(762)**	(1,580)
Depreciation in excess of Capital allowances	**2,160**	152
Unutilised tax losses brought forward – One Tel	**(2,024)**	
Group relief	**1,654**	4,601
Adjustments to tax charge in respect of previous periods		
Current tax charge for the period	**-**	-

8. Exceptional items

As a result of the decision to integrate the One.Tel business with BGC and Telco Global businesses, a provision of £4.4m was made for reorganisation costs, the major part being redundancy costs.

9. Intangible fixed assets

	Goodwill £'000
Cost	
At 1 January 2004 and 31 December 2004	**56,280**
Amortisation	
1 January 2004	10,818
Charge for the period	3,637
31 December 2004	**14,455**
Net book value	
31 December 2004	**41,825**
31 December 2003	**45,462**

Notes to the accounts for the year ended 31 December 2004 (continued)

10. Tangible fixed assets

	Telecommunications equipment £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
1 January 2004	16,460	19,426	35,886
Inter-company transfers	-	(322)	(322)
Additions	2,320	781	3,101
Disposals	(128)	(3,374)	(3,502)
31 December 2004	**18,652**	**16,511**	**35,163**
Accumulated depreciation			
At 1 January 2004	7,493	5,957	13,450
Inter-company transfers	-	(226)	(226)
Charge for the year	3,196	5,398	8,594
Disposals	(106)	(3,354)	(3,460)
31 December 2004	**10,583**	**7,775**	**18,358**
Net book value			
31 December 2004	**8,069**	**8,736**	**16,805**
31 December 2003	8,967	13,469	22,436

Included in the above fixed assets is office equipment held under finance leases with a net book value of £1.0m (at 31 December 2003: £2.4m), comprising mainly telecommunications equipment.

11. Stock

	2004 £'000	2003 £'000
Finished goods and goods for resale	**213**	99

Notes to the accounts for the year ended 31 December 2004 (continued)

12. Debtors (amounts falling due within one year)

	As at 31 December 2004 £'000	As at 31 December 2003 £'000
Trade debtors	**17,159**	16,641
Amounts owed by group undertakings	-	-
Other debtors	**4,569**	172
Prepayments and accrued income	**12,126**	13,321
	33,854	30,134

13. Creditors (amounts falling due within one year)

	2004 £'000	2003 £'000
Trade creditors	**8,812**	11,434
Amounts owed to group undertakings	**107,285**	100,317
Finance leases (note 19)	**4,189**	2,328
Taxation and social security	**917**	1,003
Other creditors	**5,139**	2,522
Accruals and deferred income	**23,050**	30,798
	149,392	148,402

Amounts owed to group undertakings are unsecured, interest free and repayable on demand.

The increase in the lease liability is due to the reclassification of leases previously due after more than one year.

14. Creditors (amounts falling due after more than one year)

	2004 £'000	2003 £'000
Finance leases (note 19)	**299**	4,635
Amounts owed to group undertakings	**8,424**	8,424
	8,723	13,059

Amounts owed to group undertakings are unsecured and interest free.

Notes to the accounts for the year ended 31 December 2004 (continued)

15. Provisions for liabilities and charges

	At 1 January 2004 £'000	Profit and loss charge £'000	**At 31 December 2004 £'000**
Long term incentive scheme	1,369	463	**1,832**
Reorganisation	-	4,391	**4,391**
	1,369	4,485	**6,223**

Long term incentive scheme

Under this share scheme a provision is raised as the cost of potential share awards are recognised in the profit and loss account. The provision is released after a three year period subject to performance criteria being met and the shares are purchased by the Company from the Centrica Employee Share Trust.

Reorganisation

As a result of the decision to integrate the One.Tel business with BGC and Telco Global businesses, a provision of £4.4m was made for reorganisation costs.

Deferred tax

Deferred corporation tax provision/(asset) at 30% (at 31 December 2003:30%) is analysed as follows:

	Provided		Unprovided	
	At 31 December 2004 £'000	At 31 December 2003 £'000	**At 31 December 2004 £'000**	At 31 December 2003 £'000
Deferred corporation tax				
- decelerated capital allowances	**(720)**	-	**(3,972)**	(2,532)
- other timing differences	**720**	-	**-**	(833)
- losses			**(2,300)**	(4,367)
	-	-	**(6,272)**	(7,732)

16. Called up share capital

	At 31 December 2004 £'000	At 31 December 2003 £'000
Authorised		
50,000,000 Ordinary shares of £1 each	**50,000**	50,000
Called up, allotted and fully paid		
25,000,000 Ordinary shares of £1 each	**25,000**	25,000

Notes to the accounts for the year ended 31 December 2004 (continued)

17. Reserves

	Profit and loss £'000
1 January 2004	(88,988)
Loss for the financial year	(7,081)
31 December 2004	**(96,069)**

18. Reconciliation of movements in shareholder deficit

	2004 £'000	2003 £'000
Loss for the financial year	**(7,081)**	(14,230)
Opening shareholder deficit	***(63,988)***	*(49,758)*
Closing shareholder deficit	**(71,069)**	(63,988)

19. Commitments and contingencies

a) Lease commitments

At 31 December non-cancellable operating lease commitments for the following year were:	Land and buildings **2004 £'000**	Land and buildings 2003 £'000	Other **2004 £'000**	Other 2003 £'000
Expiring:				
Within one year	-	-	**90**	73
Within one and five years	-	-	**127**	68
	-	-	**217**	141

	2004 £'000	2003 £'000
Future minimum payments under finance leases are as follows:		
Within one year	**4,189**	2,328
Within two to five years	**299**	4,635
	4,488	6,963

Notes to the accounts for the year ended 31 December 2004 (continued)

19. Commitments and contingencies (continued)

b) Pensions

The company accounts for pensions in accordance with SSAP24 but includes additional disclosures as required under the transitional arrangements of FRS17.

The Company operates a number of pension schemes, of both the defined contribution and defined benefit type. The majority of the Company's UK employees as at 31 December 2004 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 schemes 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 FRS17, these schemes have been treated for disclosure purposes as defined contribution schemes. The aggregate contributions to the schemes during the year were £1.8 million. The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £488 million (£342 million net of deferred tax). Further details of this valuation can be found in the annual report of Centrica plc.

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, the last of which was as at 31 March 2004.

The pension costs for defined contribution schemes, which represent contributions payable by the Company, amounted to £0.2 million for the year (31 December 2003: £0.2 million) there were no outstanding or prepaid contributions at 31 December 2004.

20. 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.