Centrica Telecommunications Limited

Annual report and accounts for the year ended 31 December 2003

Registered number: 4226697

Directors' report

The directors present their report and audited accounts of Centrica Telecommunications Limited (the "Company") for the year ended 31 December 2003. Comparatives are for the sixteen months ended 31 December 2002.

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

2003 has been a year of continued development and growth within Centrica Telecommunications Limited. We have maintained our focus on developing new products and internal processes that offer a best total cost solution to our customers, whilst lobbying for regulatory improvements to enable the enhancement of Carrier Pre-Select (CPS) and the delivery of Wholesale Line Rental (WLR) to encourage open competition.

In 2003 annualised turnover grew by 15% to £234.9 million (16 months ended 31 December 2002: £262.2 million), as a result of the growth in customer numbers and a slight improvement in fixed line Average Revenue Per User (ARPU). The further uptake of CPS has enabled us to offset significant competition-related price reductions, especially in international and national rates, with the average revenue per user on these tariffs being more than 35% higher that non CPS tariffs. The average minutes of use per month increased as a result of product enhancements and service improvements, fixed line churn levels declined year on year. Our variable gross margin was sustained as we continued to leverage our least cost routing capability and negotiate favourable transmission rates with our carriers.

Operating loss for 2003 was £13.1 million, a significant improvement on the £72.9m operating loss for the 16 months ended 31 December 2002 due to an established customer base and set up costs incurred in 2001 and 2002 particularly for the British Gas Communications brand.

Expenditure on advertising the One.Tel brand has increased by £1.7 million to £3.6 million as we highlighted the comprehensive suite of telecommunications services available from One.Tel. Compared to the end of 2002, when One.Tel had one call inclusive package, the brand now offers a complete range of fixed line, mobile and internet tariffs addressing the varied needs of customers in today's market. In addition, since the deregulation of the directory enquiries market in August 2003, One.Tel has provided a free directory enquiries service to our customers. Our mobile base continues to grow steadily, reaching 73,000 customers at the end of 2003 with the new call and text inclusive tariffs (launched in March 2003) successfully attracting high value customers.

In the absence of a workable WLR solution, the British Gas Communications brand has intentionally acquired fewer customers in 2003 and has focused on significantly reducing customer churn, through increasing the take-up of CPS tariffs.

Acquisition costs have increased, reflecting the higher costs of acquiring customers associated with offering a greater range of products through a wider array of distribution channels and a full year of our mobile product which was launched mid way through 2002.

Financial results

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

The Company recorded a loss on ordinary activities after taxation of £14 million for the year ended 31 December 2003 (16 months ended 31 December 2002: £75 million loss).

Future developments

Continuing on from 2003, the One.Tel and British Gas Communications brands will continue to focus on growing customer base and average revenue per customer combined with lowering costs. 2003 has seen significant progress in the industry debate around WLR deregulation, and we, along with other market entrants, will trial a WLR product in late 2004, enabling our customers to benefit from a single relationship for all their telecommunications requirements. Following the success of a trial in 2003, One.Tel announced, on 16th January 2004, the setting-up of a call centre in Bangalore, which will lower the cost base.

Directors' report (continued)

Dividends and transfers to reserves

The directors do not recommend the payment of a final dividend for the year ended 31 December 2003 (16 months ended 31 December 2002: £nil).

Directors

The following served as directors during the full period, unless otherwise stated:

M R Alexander (Resigned 28 February 2003)

I R S El-Mokadem

I G Dawson

R C A Leclercq

Directors' interest

At no time during the year did any director have any interest in the shares of the Company (at 31 December 2002: 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.

Details of the interests of I G Dawson in the shares and options over shares in the ultimate parent company Centrica plc, are shown in the accounts of the intermediate holding company GB Gas Holdings Limited.

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

Interests in ordinary shares

	As at 31 December 2002	As at 31 December 2003
I R S El-Mokadem	27,672	47,234

The above figures include shares appropriated under the terms of the Centrica profit sharing scheme, and shares held under the terms of the Centrica Share Incentive Plan.

Centrica Sharesave scheme

	As at 31 December 2002	Granted during the year	Exercised during the year	Options lapsed	At 31 December 2003
I R S El-Mokadem	4,404	2,823	-	956	6,271
R C A Leclercq	5,349	8,823	-	5,349	8,823

Options were granted under the terms of the Centrica Sharesave scheme in April 2001 and April 2003 at an option price of 191.0 and 107.1 pence per share respectively.

Directors' report (continued)

Centrica Executive Share Option scheme

	As at 31 December 2002	Granted during the year	Exercised during the year	As at 31 December 2003
I R S El-Mokadem	163,951	136,425	-	300,376
R C A Leclercq	-	92,087	-	92,087

Under the terms of the Centrica Executive Share option scheme options were granted in April 2002 and March 2003 at an option price of 224.8 and 146.6 pence per share respectively.

Long-term Incentive scheme

	As at 31 *December 2002*	Allocations made during the *year*	Allocations transferred *during the year*	Allocations lapsed in the *year*	As at 31 *December 2003*
I R S El-Mokadem	199,828	74,601	33,156	12,990	228,283
R C A Leclercq	60,521	48,524	-	-	109,045

Total allocations as at 31 December 2003 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 2003 at a base price of 179.4 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, the Share Incentive Plan and Profit Sharing scheme, can be found in the 2003 accounts of Centrica plc, copies of which can be obtained from the Secretariat Department of Centrica plc or at www.centrica.com.

The middle market price of Centrica plc ordinary shares on the last day of trading of 2003 (31 December) was 211 pence. The range during the year was 212.75 pence (high) and 131.5 pence (low).

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 number of days' purchases outstanding as at 31 December 2003 is calculated at 19 days (at 31 December 2002: 22 days).

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.

Directors' report (continued)

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.

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.

Political and charitable donations

Charitable donations in the UK during the year amounted to £15,000 (16 months ended 31 December 2002: £nil). In line with group policy, no donations were made for political purposes.

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 5TH JULY 2004

Ian Ritchie
for and on behalf of
Centrica Secretaries Limited
Company Secretary

Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

Statement of directors' responsibilities

The directors are required by the Companies Act 1985 to prepare accounts 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 of the Company for that period. The directors are required to prepare the accounts on a going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors consider that in preparing the accounts on pages 7 to 19 the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, and all accounting standards which they consider to be applicable have been followed.

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 accounts 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 2003 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
1 Embankment Place
London WC2N 6RH

5 July 2004

Profit and loss account for the year ended 31 December 2003

	Notes	**Year ended 31 December 2003 £'000**	16 months ended 31 December 2002 £'000
Turnover	2	**234,924**	262,170
Cost of sales		**(122,970)**	(149,540)
Gross profit		**111,954**	112,630
Administrative expenses:			
before exceptional charges		**(125,091)**	(172,405)
exceptional charges	7	-	(13,125)
Administrative expenses including exceptional charges		**(125,091)**	(185,530)
Operating loss	3	**(13,137)**	(72,900)
Loss on sale of fixed assets		**(35)**	-
Loss on ordinary activities before interest		**(13,172)**	(72,900)
Net interest payable	5	**(1,058)**	(1,858)
Loss on ordinary activities before taxation		**(14,230)**	(74,758)
Tax on ordinary activities	6	-	-
Loss on ordinary activities after taxation for the financial period		**(14,230)**	(74,758)

All activities during the period were from continuing operations.

There have been no other gains or losses recognised during the period 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 period as stated above and their historical cost equivalent.

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

Balance sheet at 31 December 2003

	Notes	At 31 December 2003 £'000	At 31 December 2002 £'000
Fixed assets			
Intangible assets	8	**45,462**	49,099
Tangible assets	9	**22,436**	27,861
		67,898	76,960
Current assets			
Stocks	11	**99**	440
Debtors (amounts falling due within one year)	12	**30,134**	154,425
Cash at bank and in hand		**711**	1,093
		30,944	155,958
Creditors (amounts falling due within one year)	13	**(148,402)**	(264,834)
Net current liabilities		**(117,458)**	(108,876)
Total assets less current liabilities		**(49,560)**	(31,916)
Creditors (amounts falling due after more than one year)	14	**(13,059)**	(16,868)
Provisions for liabilities and charges	15	**(1,369)**	(974)
Net liabilities		**(63,988)**	(49,758)
Capital and reserves			
Called up share capital	16	**25,000**	25,000
Profit and loss account	17	**(88,988)**	(74,758)
Total equity shareholder deficit	18	**(63,988)**	(49,758)

The accounts on pages 7 to 19 were approved by the board of directors on 5 July 2004 and were signed on its behalf by:

R C A Leclercq
Director

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

Notes to the accounts

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 present 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, 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

Turnover represents amounts receivable for goods and services provided in the normal course of business, net of trade discounts, VAT and other sales related taxes. Turnover is recognized on the basis of telephony services provided to customers in the financial period.

Cost of sales

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

Long-term incentive schemes

The cost of potential share awards under the Centrica plc group long-term incentive schemes is 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 contributions receivable from employees and the market value at the date of grant, or the actual cost of shares where market purchases are made at, or around, grant date. Cost also includes 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 (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 both defined contribution and group defined benefit pension schemes. The group defined benefit pension scheme 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 (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.

Notes to the accounts (continued)

2. Segmental reporting

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

3. Operating loss

	Year ended 31 December 2003 £'000	16 months ended 31 December 2002 £'000
Operating loss is stated after charging:		
Amortisation of goodwill	**3,637**	7,181
Depreciation:		
Owned assets	**9,978**	8,724
Leased assets	**1,373**	1,831
Operating lease rentals:		
Plant and machinery	**13**	-
Other	**75**	-
Auditors' remuneration:		
Statutory audit	**150**	159
Other	-	3
Exceptional charges (see note 7)	-	13,125

4. 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 2003 and accounts of GB Gas Holdings Limited. Details of emoluments received from the Company by the remaining two directors are as follows:

	Year ended 31 December 2003 £'000	16 months ended 31 September 2002 £'000
Aggregate emoluments	**580**	525

Of these two directors, the emoluments of the highest paid director, excluding pension contributions were £342,527 (16 months ended 31 December 2002: £308,188). 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 2003 was £28,615 (16 months ended 31 December 2002: £21,748). The accrued lump sum of the highest paid director as at 31 December 2003 was £25,062 (16 months ended 31 December 2002: £nil). Company contributions paid to a defined contribution pension scheme in respect of the two directors was £nil (16 months ended 31 December 2002: £nil)

Notes to the accounts (continued)

4. Directors and employees (continued)

Employee information

	Year ended 31 December 2003 £'000	16 months ended 31 December 2002 £'000
Staff costs during the period (including directors)		
Wages and salaries	**33,492**	29,941
Social security costs	**3,257**	3,917
Other pension cost and retirement benefits costs	**1,908**	2,150
Long term incentive scheme	**741**	576
	39,398	36,584

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

By activity	Year ended 31 December 2003 Number	16 months ended 31 December 2002 Number
Customer relationship and service delivery	**1,028**	796
Sales and marketing	**153**	203
Administration	**163**	147
	1,344	1,146

5. Interest payable and similar charges

	Year ended 31 December 2003 £'000	16 months ended 31 December 2002 £'000
Finance leases	**1,058**	1,858

Notes to the accounts (continued)

6. 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 2003 £'000	16 months ended 31 December 2002 £'000
Loss on ordinary activities before tax	**(14,230)**	(74,758)
Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (at 31 December 2002: 30%)	**(4,269)**	(22,428)
Effects of:		
Expenses not deductible for tax purposes	**1,096**	3,054
Utilisation of timing differences	**(1,580)**	292
Capital allowances in excess of depreciation	**152**	3,308
Group relief	**4,601**	15,774
Adjustments to tax charge in respect of previous periods		
Current tax charge for the period	**-**	-

7. Exceptional charges

During the prior period, £16.4m of accelerated depreciation was charged to the profit and loss account in relation to the transfer of the British Gas Communications billing system. One.Tel wrote off trade creditors, transferred on the purchase of the business, amounting to £3.3m.

8. Intangible fixed assets

	Goodwill £'000
Cost	
At 1 January 2003 and 31 December 2003	**56,280**
Amortisation	
At 1 January 2003	7,181
Charge for the period	3,637
At 31 December 2003	**10,818**
Net book value	
At 31 December 2003	**45,462**
At 31 December 2002	49,099

Notes to the accounts (continued)

9. Tangible fixed assets

	Telecommunications equipment £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1 January 2003	14,205	22,098	36,303
Inter-company transfers	-	(160)	(160)
Additions	3,052	4,411	7,463
Disposals	(797)	(6,923)	(7,720)
At 31 December 2003	**16,460**	**19,426**	**35,886**
Accumulated depreciation			
At 1 January 2003	4,293	4,149	8,442
Inter-company transfers	-	(93)	(93)
Charge for the period	3,997	7,354	11,351
Disposals	(797)	(5,453)	(6,250)
At 31 December 2003	**7,493**	**5,957**	**13,450**
Net book value			
At 31 December 2003	**8,967**	**13,469**	**22,436**
At 31 December 2002	9,912	17,949	27,861

Included in the above fixed assets is office equipment held under finance leases with a net book value of £2.4m (at 31 December 2002: £3.8m), comprising mainly telecommunications equipment.

10. Fixed asset investments

	£'000
At 1 January 2003	-
Additions	20,326
Write down of investment	(20,326)
At 31 December 2003	-

Investments comprise 100% of the equity shares in Moeraki Corporation plc (formerly known as One.Tel plc). During the year, the Company purchased additional share capital in Moeraki Corporation plc. The investment was deemed worthless when Moeraki Corporation plc was formerly placed in Members' Voluntary Liquidation.

11. Stock

	At 31 December 2003 £'000	At 31 December 2002 £'000
Finished goods and goods for resale	**99**	440

Notes to the accounts (continued)

12. Debtors (amounts falling due within one year)

	At 31 December 2003 £'000	At 31 December 2002 £'000
Trade debtors	**16,641**	14,496
Amounts owed by group undertakings	**-**	126,846
Other debtors	**172**	1,475
Prepayments and accrued income	**13,321**	11,608
	30,134	154,425

13. Creditors (amounts falling due within one year)

	At 31 December 2003 £'000	At 31 December 2002 £'000
Trade creditors	**11,434**	10,899
Amounts owed to group undertakings	**100,317**	215,413
Finance leases (note 19)	**2,328**	2,330
Taxation and social security	**1,003**	822
Other creditors	**2,522**	4,738
Accruals and deferred income	**30,798**	30,632
	148,402	264,834

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

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

	At 31 December 2003 £'000	At 31 December 2002 £'000
Finance leases (note 19)	**4,635**	8,444
Amounts owed to group undertakings	**8,424**	8,424
	13,059	16,868

Amounts owed to group undertakings are unsecured and interest free.

Notes to the accounts (continued)

15. Provisions for liabilities and charges

	At 1 January 2003 £'000	Profit and loss charge £'000	Reclass to Other Debtors £'000	**At 31 December 2003 £'000**
Pension costs	398	(558)	160	**-**
Long term incentive scheme	576	793	-	**1,369**
	974	235	160	**1,369**

Pension costs

The pension provision represents the difference between charges to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

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 Centrica plc.

Deferred tax

Deferred corporation tax provision/(asset) at 30% (at 31 December 2002:30%) is analysed as follows:

	Provided		Unprovided	
	At 31 December 2003 £'000	At 31 December 2002 £'000	**At 31 December 2003 £'000**	At 31 December 2002 £'000
Deferred corporation tax				
- accelerated capital allowances	**-**	-	**(2,532)**	(2,604)
- other timing differences	**-**	-	**(5,200)**	(292)
	-	-	**(7,732)**	(2,896)

16. Called up share capital

	At 31 December 2003 £'000	At 31 December 2002 £'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 (continued)

17. Reserves

	Profit and loss £'000
At 1 January 2003	(74,758)
Loss for the financial year	(14,230)
At 31 December 2003	**(88,988)**

18. Reconciliation of movements in shareholder deficit

	At 31 December 2003 £'000	At 31 December 2002 £'000
Loss on ordinary activities after taxation for the financial period	**(14,230)**	(74,758)
Opening shareholder deficit	**(49,758)**	25,000
Closing shareholder deficit	**(63,988)**	(49,758)

19. Commitments and contingencies

a) Lease commitments

At 31 December non-cancellable operating lease commitments for the following year were:	Land and buildings **2003 £'000**	2002 £'000	Other **2003 £'000**	2002 £'000
Expiring:				
Within one year	-	-	**73**	-
Within one and five years	-	-	**68**	-
	-	-	**141**	-

	2003 £'000	2002 £'000
Future minimum payments under finance leases are as follows:		
Within one year	**2,328**	2,330
Within two to five years	**4,635**	8,444
	6,963	10,774

Notes to the accounts (continued)

19. Commitments and contingencies (continued)

b) Pensions

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 2003 were members of three of the four main schemes in the Centrica plc Group; the Centrica Staff Pension Scheme, the AA Staff Pension Scheme and the Centrica Management 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 £1,709,372. There were no outstanding or prepaid contributions at 31 December 2003. 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 £790 million (£551 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 2001. Since then, the Company has continued to take actuarial advice and has increased its contribution levels on 1 January 2002 and on 1 September 2003.

The pension costs for defined contribution schemes, which represent contributions payable by the Company, amounted to £156,712 for the year (16 months ended 31 December 2002: £134,000) there were no outstanding or prepaid contributions at 31 December 2003.

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.