Centrica Telecommunications Limited

Report and accounts for the 16 months ended 31 December 2002

Registered number: 4226697

Directors' report

The directors present their report and audited accounts of Centrica Telecommunications Limited (the "Company") for the 16 months ended 31 December 2002. Comparatives are for the three months ended 31 August 2001.

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'.

The business transfer into the Company of the One.Tel UK brand commenced on 1 September 2001 from One.Tel plc. On 1 October 2001 the business of the British Gas Communications brand was also transferred from British Gas Trading Limited into the Company. In addition, the Company acquired the broadband trading activity of Iomart on 7 January 2002.

Business review

The focus for the period has been on increasing the value of our customer base through enhanced product offerings and operational efficiencies. In the medium term, this positioning provides us with a sound platform to develop in the UK, assuming recent regulatory proposals are implemented quickly and fully.

During the period monthly turnover has increased significantly, as a result of growth in the customer base. Our variable gross margin has improved as advantage was taken of opportunities to negotiate improved transmission charges with the Company's carriers. The switched reseller business model relies on the use of networks of a variety of infrastructure owners (13 at 31 December 2002), mitigating the risks associated with network failure or carrier financial distress.

A £2 million marketing campaign was undertaken in the fourth quarter of 2002 aimed at raising awareness of One.Tel's transition from a discounted international calls provider to a full communications provider offering landline, mobile and narrow and broadband internet services. To this end, during the second half of the period our first call-inclusive package was launched. Since the launch in July, mobile sales have been very encouraging with more than 35,000 contracts sold, supported by attractive pricing and expanded retail distribution.

Financial results

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

The Company recorded an operating loss on ordinary activities of £75 million for the 16 months ended 31 December 2002 (3 months ended 31 August 2001: £nil).

Future developments

Continuing on from 2002 the 'One.Tel' and 'British Gas Communications' brands are focusing on growing customer base and average revenue per customer combined with lowering costs. Regulatory changes, particularly those relating to Wholesale Line Rental (WLR) are expected by mid 2004. This should further increase the competitiveness of the fixed line market.

Dividends and transfers to reserves

The directors do not recommend the payment of a final dividend for the 16 months ended 31 December 2002 (3 months ended 31 August 2001: £nil).

Directors' report (continued)

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	(Appointed 15 April 2002)

Directors' interest

At no time did any director, holding office at 31 December 2002, have any interest in the shares of the Company (at 31 August 2001: 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 M R Alexander in the shares and options over shares in the ultimate parent company Centrica plc, are shown in the Centrica plc Annual Report for 2002.

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 ordinary shares of Centrica plc during the period (which include those of their families), and who were holding office at the period end are as follows:

Interests in ordinary shares

	At 31 December 2002	At 1 September 2001
I R S El-Mokadem	27,672	2,465

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

Sharesave Scheme

	At 1 September 2001	Granted during period	Exercised during period	At 31 December 2002
I R S El-Mokadem	4,404	-	-	4,404
R C A Leclercq	-	5,349	-	5,349

Options over shares in Centrica plc were granted in June 2000, April 2001 and April 2002 at an option price of 202.6, 191.0 and 177.6 pence per share respectively under an all employee savings-related share option scheme, the Sharesave scheme.*

Directors' report (continued)

Executive Share Option Scheme

	At 1 September 2001	Granted during period	Exercised during period	At 31 December 2002
I R S El-Mokadem	74,984	88,967	-	163,951

Options were granted on 2 April 2002 at an option price of 224.8 pence under the terms of the Executive share option scheme.*

Long Term Incentive Scheme

	At 1 September 2001	Granted during period	Exercised during period	At 31 December 2002
I R S El-Mokadem	151,929	88,396	40,497	199,828
R C A Leclercq	-	60,521	-	60,521

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

Notional allocation of 74,408 (43,913 to I R S El-Mokadem and 30,495 to R C A Leclercq) of the above shares was made on 1 October 2001 under this scheme at a base price of 234.37 pence. A further notional allocation of 74,509 (44,483 to I R S El-Mokadem and 30,026 to R C A Leclercq) was made on 2 April 2002 at a base price of 224.70 pence.

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

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

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

Creditor payment policy

The Company aims to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for telecommunications supplies. For all other trade creditors, it is the Company's policy to:

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 2002 is calculated at 22 days (at 31 August 2001: not trading).

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 is given to the retention of staff who become disabled during employment.

Directors' report (continued)

Employee communications

The Company is committed to effective communications, which it maintains through briefing sessions and company magazines. In addition, a performance review is carried out on a quarterly basis to provide employees with a formal forum in which to give feedback to managers. Formal communications with trade unions take place through regular meetings between representatives from the Company and trade unions. The Company has procedures for the timely and accurate communication of financial results and other significant business issues to its employees.

Directors' and officers' liability

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

Auditors

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

The Auditors have indicated their willingness to continue in office.

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 the Auditors annually.

By order of the Board

Philip Davies
Centrica Secretaries Limited
Company Secretary

Registered Office
Millstream
Maidenhead Road
Windsor
Berkshire
SL4 5GD

2 July 2003

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 20 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 2002 and of its loss for the period 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
2 July 2003

Profit and loss account for the 16 months ended 31 December 2002

	Notes	16 months ended 31 December 2002 £'000	3 months ended 31 August 2001 £'000
Turnover	2	**262,170**	-
Cost of sales		**(149,540)**	-
Gross profit		**112,630**	-
Administrative expenses:			
before exceptional charges		**(172,405)**	-
exceptional charges	7	**(13,125)**	-
Administrative expenses including exceptional charges		**(185,530)**	-
Operating loss	3	**(72,900)**	-
Net interest	5	**(1,858)**	-
Loss on ordinary activities before taxation		**(74,758)**	-
Tax on ordinary activities	6	-	-
Loss on ordinary activities after taxation for the financial period		**(74,758)**	-

All activities during the period were from acquisitions.

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 20 form part of these accounts.

Balance sheet at 31 December 2002

	Notes	At 31 December 2002 £'000	At 31 August 2001 (as restated) £'000
Fixed assets			
Intangible assets	8	**49,099**	-
Tangible assets	9	**27,861**	-
Investments	10	**-**	33,128
		76,960	33,128
Current assets			
Stocks	11	**440**	-
Debtors (amounts falling due within one year)	12	**154,425**	25,000
Cash at bank and in hand		**1,093**	-
		155,958	25,000
Creditors (amounts falling due within one year)	13	**(264,834)**	-
Net current (liabilities)/assets		**(108,876)**	25,000
Total assets less current liabilities		**(31,916)**	58,128
Creditors (amounts falling due after more than one year)	14	**(16,868)**	(33,128)
Provisions for liabilities and charges	15	**(974)**	-
Net (liabilities)/assets		**(49,758)**	25,000
Capital and reserves			
Called up share capital	16	**25,000**	25,000
Profit and loss account	17	**(74,758)**	-
Total equity shareholder (deficit)/ funds	18	**(49,758)**	25,000

The accounts on pages 7 to 20 were approved by the board of directors on 2 July 2003 and were signed on its behalf by:

R C A Leclercq
Director

The notes on pages 9 to 20 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.

Change in accounting policies

In November and December 2000, the Accounting Standards Board issued FRS 17, 'Retirement benefits', and FRS 19, 'Deferred tax'.

The Company has adopted FRS 19, 'Deferred Tax', in the accounts. The adoption of this new standard represents a change in accounting policy. This has not resulted in any change to either financial period. The Company has chosen not to adopt FRS 17 early but has complied with the transitional disclosures required by this standard.

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.

Prior period adjustment

The balance sheet has been restated to reflect the purchase of the shares of One.Tel plc on 5 July 2001. The purchase had not been disclosed in the accounts of the Company for the 3 month period ended 31 August 2001. This transaction resulted in a fixed asset investment of £33 million and corresponding group creditor greater than one year. The adjustment has nil effect on profit and net assets.

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.

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 up to 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:

Plant and machinery	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.

Investments

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

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

	16 months ended 31 December 2002 £000	3 months ended 31 August 2001 £000
Operating loss is stated after charging:		
Amortisation of goodwill	**7,181**	-
Depreciation:		
Owned assets	**8,724**	-
Leased assets	**1,831**	-
Auditors' remuneration:		
Statutory audit	**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 2002 and accounts of GB Gas Holdings Limited. Details of emoluments received from the Company by the remaining two directors are as follows:

	16 months ended 31 December 2002 £000	3 months ended 31 August 2001 £000
Aggregate emoluments	**525**	-

Of these two directors, the emoluments of the highest paid director, excluding pension contributions were £308,188 (3 months ended 31 August 2001: £nil). 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 2002 was £21,748 (3 months ended 2001: £nil). Company contributions paid to a defined contribution pension scheme in respect of the two directors was £nil (3 months ended 31 August 2001: £nil).

Notes to the accounts (continued)

4. Directors and employees (continued)

Employee information

	16 months ended 31 December 2002 £000	3 months ended 31 August 2001 £000
Staff costs during the period (including directors)		
Wages and salaries	**29,941**	-
Social security costs	**3,917**	-
Other pension costs	**2,150**	-
Long term incentive scheme	**576**	-
Redundancy costs	**389**	-
	36,973	-

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

By activity	16 months ended 31 December 2002 Number	3 months ended 31 August 2001 Number
Customer relationship and service delivery	**796**	-
Sales and marketing	**203**	-
Administration	**147**	-
	1,146	-

Prior to 1 September 2001, the directors of the Company were employed by Centrica plc. As a result they have not been included in the comparatives above.

5. Interest payable and similar charges

	16 months ended 31 December 2002 £000	3 months ended 31 August 2001 £000
Finance leases	**1,858**	-

6. Taxation on the loss for the period

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

Notes to the accounts (continued)

6 Taxation on the loss for the period (continued)

	16 months ended 31 December 2002 £000	3 months ended 31 August 2001 £000
Loss on ordinary activities before tax	**(74,758)**	-
Tax on loss on ordinary activities at standard UK corporation tax rate of 30% (3 months ended 31 August 2001:30%)	**(22,428)**	-
Effects of:		
Expenses not deductible for tax purposes	**3,054**	-
Utilisation of timing differences	**292**	-
Capital allowances in excess of depreciation	**3,308**	-
Group relief	**15,774**	-
Current tax charge for the period	**-**	-

7. Exceptional charges

During the period, there was £13.1m included in exceptional charges. The British Gas Communciations brand transferred its billing processes on to a new system. As a consequence accelerated depreciation amounting to £16.4m was charged to the profit and loss account. One.Tel wrote off trade creditors amounting to £3.3m, in relation to trade creditors transferred on the purchase of the business. There were no exceptional charges for the period ended 31 August 2001.

8. Intangible fixed assets

	Goodwill £'000
Cost	
At 1 September 2001	-
Acquisitions (note 19)	56,280
At 31 December 2002	**56,280**
Amortisation	
At 1 September 2001	-
Charge for the period	7,181
At 31 December 2002	**7,181**
Net book value	
At 31 December 2002	**49,099**
At 31 August 2001	-

Notes to the accounts (continued)

9. Tangible fixed assets

	Telecommunications equipment £'000	Fixtures, fittings and computer equipment £'000	Total £'000
Cost			
At 1 September 2001	-	-	-
Inter company transfers	7,844	32,735	40,579
Additions	6,361	7,876	14,237
Disposals	-	(18,513)	(18,513)
At 31 December 2002	**14,205**	**22,098**	**36,303**
Accumulated depreciation			
At 1 September 2001	-	-	-
Charge for the period	4,293	22,662	26,955
Disposals	-	(18,513)	(18,513)
At 31 December 2002	**4,293**	**4,149**	**8,442**
Net book value			
At 31 December 2002	**9,912**	**17,949**	**27,861**
At 31 August 2001	-	-	-

Included in the above fixed assets is office equipment held under finance leases with a net book value of £3.8m (at 31 August 2001: nil), comprising mainly telecommunications equipment.

During the period, the Company transferred the old British Gas Communications brand billing system to a new system (see note 7). As a result the life of the old billing system was revised. The effect of this revision is an increase in the depreciation charge for the period of £16.4m.

10. Fixed asset investments

	£'000
At 1 September 2001	33,128
Reallocated to goodwill (see note 19)	(33,128)
At 31 December 2002	-

Investments comprise 100% of the equity shares in Moeraki Corporation plc (formerly known as One.Tel plc). The accounting reference date of Moeraki Corporation plc is 27 December. The last set of accounts filed at Companies House was for the period ended 4 July 2001.

Goodwill of £55m was created upon the transfer of net liabilities from Moeraki Corporation plc to Centrica Telecommunications Limited (note 19).

11. Stock

	At 31 December 2002 £'000	At 31 August 2001 £'000
Finished goods and goods for resale	**440**	-

Notes to the accounts (continued)

12. Debtors (amounts falling due within one year)

	At 31 December 2002 £'000	At 31 August 2001 £'000
Trade debtors	**14,496**	-
Amounts owed by group undertakings	**126,846**	25,000
Other debtors	**1,475**	-
Prepayments and accrued income	**11,608**	-
	154,425	25,000

13. Creditors (amounts falling due within one year)

	At 31 December 2002 £'000	At 31 August 2001 £'000
Trade creditors	**10,899**	-
Amounts owed to group undertakings	**215,413**	-
Finance leases (note 20)	**2,330**	-
Taxation and social security	**822**	-
Other creditors	**4,738**	-
Accruals and deferred income	**30,632**	-
	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 2002 £'000	At 31 August 2001 (as restated) £'000
Finance leases (note 20)	**8,444**	-
Amounts owed to group undertakings	**8,424**	33,128
	16,868	33,128

Amounts owed to group undertakings are unsecured and interest free.

15. Provisions for liabilities and charges

	At 1 September 2001 £'000	Profit and loss charge £'000	At 31 December 2002 £'000
Pension costs	-	398	**398**
Long term incentive scheme	-	576	**576**
	-	974	**974**

Notes to the accounts (continued)

15. Provisions for liabilities and charges (continued)

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 August 2001:30%) is analysed as follows:

	Provided at 31 December 2002 £'000	At 31 August 2001 £'000	**Unprovided at 31 December 2002 £'000**	At 31 August 2001 £'000
Deferred corporation tax				
- accelerated capital allowances	**-**	-	**(2,604)**	-
- other timing differences	**-**	-	**(292)**	-
	-	-	**(2,896)**	-

16. Called up share capital

	At 31 December 2002 £'000	At 31 August 2001 £'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

17. Reserves

	Profit and loss £'000
At 1 September 2001	-
Loss for the financial period	(74,758)
At 31 December 2002	**(74,758)**

Notes to the accounts (continued)

18. Reconciliation of movements in shareholder (deficit)/funds

	At 31 December 2002 £'000	At 31 August 2001 £'000
Loss on ordinary activities after taxation for the financial period	**(74,758)**	-
Share capital issued	-	25,000
Opening shareholder funds	**25,000**	-
Closing shareholder (deficit)/funds	**(49,758)**	25,000

19. Acquisitions

One.Tel plc

The Company acquired the shares of One.Tel plc on 5 July 2001, and the transfer to the Company of the telecoms business and certain assets commenced on 1 September 2001.

Goodwill arising is amortised over 15 years.

The analysis of net assets acquired and the fair value to the Company was as follows:

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Book value and fair value of assets acquired			
Tangible fixed assets	13,734	-	13,734
Net current liabilities	(35,161)	-	(35,161)
Net liabilities acquired	(21,427)	-	(21,427)
Goodwill arising			54,555
Consideration:			
Reallocation of cost of investment (see note 10)			33,128

The net book value of the investment in One.Tel plc at 31 August 2001 was £33m. This amount has been transferred from fixed asset investments and applied to the net liabilities acquired, creating goodwill of £55m.

British Gas Communications

The assets and liabilities of the British Gas Communications telecommunications business were transferred at net book value to Centrica Telecommunications Limited on 1 October 2001. British Gas Trading Ltd retained the brought forward losses of the business.

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Book value and fair value of assets acquired			
Tangible fixed assets	26,845	-	26,845
Net current liabilities	(26,845)	-	(26,845)
Net liabilities acquired	-	-	-

Notes to the accounts (continued)

19. Acquisitions (continued)

Iomart

The Company acquired the broadband business and current assets of Iomart on 7 January 2002.

The book value of assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired.

Goodwill arising has been fully amortised during the period.

The analysis of net assets acquired and the fair value to the Company was as follows:

	Book value	Fair value adjustments	Fair value
	£'000	£'000	£'000
Book value and fair value of assets acquired			
Tangible fixed assets	274	1	275
Net current liabilities	(11)	11	-
Net assets acquired	263	12	275
Goodwill arising			1,725
Consideration:			
Cash			2,000

20. Commitments and contingencies

a) Lease commitments

	2002	2001
	£'000	£'000
Future minimum payments under finance leases are as follows:		
Within 1 year	**2,330**	-
Within 2 to 5 years	**8,444**	-
After 5 years	-	-
	10,774	-

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 2002 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 have been treated as 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 period were £1,289,000. The amount outstanding at the balance sheet date was £398,000. 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 £613 million (£429 million net of deferred tax). Further details of this valuation can be found in the annual report of Centrica plc.

Notes to the accounts (continued)

20. Commitments and contingencies (continued)

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. As at 1 January 2002 the Company increased its contribution rates to the schemes on the basis of actuarial advice. Since then, the Company has maintained its current contribution levels.

The pension costs for defined contribution schemes, which represent contributions payable by the Company, amounted to £134,000 for the period. There were no outstanding or prepaid contributions at 31 December 2002.

21. 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.