

CENTRICA AMERICA LIMITED

Annual Report and Accounts

For the year ended

31 December 2004



ANNUAL REPORT AND ACCOUNTS 2004

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DIRECTORS' REPORT**For the year ended 31 December 2004**

The directors present their report and the audited financial statements of Centrica America Limited ("the Company") for the year ended 31 December 2004.

Principal activities

The principal activity of the Company is to act as an investment holding company.

The directors intend that the Company will continue to act as an intermediate holding company, financed by US dollar equity, for the foreseeable future.

Financial results and business review

The results of the Company are set out on page 6.

The Company recorded no profit or loss on ordinary activities after tax for the year (2003: US\$30,000 loss).

Dividends

The directors do not recommend the payment of a dividend for the year ended 31 December 2004 (2003: US \$nil).

Directors' interests

The following served as directors throughout the year:

I G Dawson

C Redcliffe

J A K Clark

At no time during the period ended 31 December 2004 did any director have any interest in the shares of the Company or any other company in the Centrica plc group, except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc. On 25 October 2004, the ordinary share capital of Centrica plc was consolidated on the basis of 9 new ordinary shares of 6¹⁴/₈₁ pence per share for every 10 existing ordinary shares of 5⁵/₉ pence per share. Shares shown at 31 December 2003 are on a pre-consolidation basis and those shown at 31 December 2004 are shown on a post consolidation basis. Details of the interests in the directors were as follows:

Beneficial interests in ordinary shares

	As at 31 December 2004	As at 31 December 2003
I G Dawson	237,906	163,412
J A K Clark	1,447	699
C Redcliffe	11,335	-

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

DIRECTORS' REPORT**For the year ended 31 December 2004 (continued)****Centrica Sharesave scheme**

	As at 31 December 2003	Options lapsed during the year	Options exercised during the year	Options granted during the year	As at 31 December 2004
I G Dawson	15,336	-	-	-	15,336
J A K Clark	4,941	-	-	1,032	5,973
C Redcliffe	5,349	-	-	-	5,349

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

Centrica Executive Share Option scheme

	As at 31 December 2003	Options lapsed during the year	Options exercised during the year	Options granted during the year	As at 31 December 2004
I G Dawson	828,120	-	-	267,916	1,096,036
J A K Clark	223,139	-	-	91,551	314,690
C Redcliffe	-	-	-	-	-

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.

Centrica Long Term Incentive scheme

	As at 31 December 2003	Reduction in allocations during the year	Allocations transferred during the year	Allocations made during the year	As at 31 December 2004
I G Dawson	506,203	(22,872)	(161,492)	109,707	431,546
J A K Clark	159,915	(11,588)	(34,764)	47,717	161,280
C Redcliffe	92,752	(6,404)	(19,212)	28,767	95,903

Total allocations as at 31 December 2004 shown above include both allocations of shares that are subject to performance conditions and awards 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 this scheme on 1 April 2004 at a price of 225.6 pence per share.

DIRECTORS' REPORT

For the year ended 31 December 2004 (continued)

Options were granted under the terms of the ultimate parent company's Sharesave scheme, 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 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.

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 group companies. There have been no other disclosable related party transactions.

Charitable and political donations

The Company made no political or charitable donations during the year (2003: \$nil).

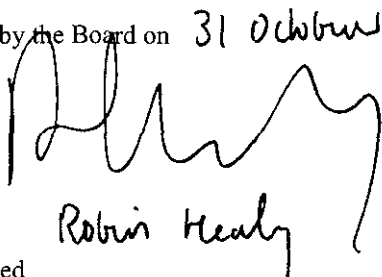
Directors' and officers' liability

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

Auditors

In accordance with Section 386 of the Companies Act 1985, the Company has elected to dispense with the obligation to reappoint auditors annually and PricewaterhouseCoopers LLP will therefore continue in office.

This report was approved by the Board on 31 October 2005.



for and on behalf of

Centrica Secretaries Limited

Company Secretary

31-10-2005

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 member of Centrica America Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses, and the related notes which have been prepared under the historical cost convention and the accounting policies set out in Note 1.

Respective responsibilities of Directors and auditors

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

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

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

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

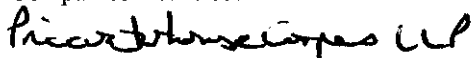
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 2004 and of its result for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London WC2N 6RH

31st October 2005

PROFIT AND LOSS ACCOUNT
For the year ended 31 December 2004

	Notes	2004 US\$000	2003 US\$000
Foreign exchange losses		-	(30)
LOSS ON ORDINARY ACTIVITIES BEFORE TAXATION		-	(30)
Taxation on profit on ordinary activities	4	-	-
LOSS ON ORDINARY ACTIVITIES AFTER TAXATION FOR THE FINANCIAL YEAR		-	(30)
TRANSFER FROM RESERVES	8	-	(30)

All activities relate to continuing operations. There is no difference between the loss on ordinary activities before taxation and the retained profit for the year stated above and its historic cost equivalents.

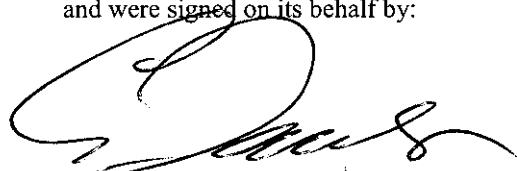
A statement of movements in shareholders funds is shown in note 9.

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

BALANCE SHEET
As at 31 December 2004

	Notes	2004 US\$000	2003 US\$000
FIXED ASSETS			
Fixed asset investments	5	901,391	494,891
CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR	6	(11)	(11)
NET CURRENT LIABILITIES		(11)	(11)
TOTAL ASSETS LESS CURRENT LIABILITIES		901,380	494,880
NET ASSETS		901,380	494,880
CAPITAL AND RESERVES			
Called up share capital	7	900,996	494,496
Profit and loss account	8	174	174
Special reserve	8	210	210
SHAREHOLDER FUNDS	9	901,380	494,880

The financial statements on pages 6 to 13 were approved by the board of directors on 31 October 2005 and were signed on its behalf by:


 Director Grant Dawson

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

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES
Year ended 31 December 2004

	2004 US\$000	2003 US\$000
Result / (Loss) for the year	-	(30)
Exchange translation differences arising on change of local currency	-	210
TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR	<u>-</u>	<u>180</u>

A statement of movements in shareholders funds is shown in note 9.

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

NOTES TO THE FINANCIAL STATEMENTS
For the year ended 31 December 2004

1. PRINCIPAL ACCOUNTING POLICIES

Accounting principles

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

Basis of preparation

The directors believe that the going concern basis is applicable for the preparation of the accounts.

Exemptions

The Company is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within FRS 1 (Revised), "Cash Flow Statements", from presenting a cash flow statement; within FRS 2 "Accounting for Subsidiary Undertakings", from consolidating its subsidiary undertakings; and within FRS 8, "Related Party Disclosures", from disclosing transactions with other group companies.

Reporting currency

The directors believe that the currency of the primary economic environment in which the company operates and generates net cash flows is US dollars and accordingly the financial statements have been prepared in US dollars.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into dollars at closing rates of exchange. Exchange differences on monetary assets and liabilities are taken to the profit and loss account. Transactions in foreign currencies are translated at the rate of exchange ruling at the date of the transaction.

Fixed asset investments

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

Taxation

Current tax, including UK corporation tax and foreign 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. Taxable profits or losses are subject to group relief without payment.

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

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

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on 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 FINANCIAL STATEMENTS

For the year ended 31 December 2004 (continued)

2. DIRECTORS AND EMPLOYEES

No directors received emoluments in respect of their services to the Company (2003: nil). There were no employees during the year (2003: nil).

All four directors are members of the ultimate parent company's defined benefit pension scheme. Directors' interests are shown in the Directors' Report on pages 1 to 3. Details of the defined benefit pension scheme can be found in the Centrica plc 2004 Annual Report and Accounts.

3. OPERATING COSTS

The remuneration of the auditors of the Company for audit services was borne by Centrica plc in both 2004 and 2003.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

	2004 US\$000	2003 US\$000
Corporation tax at 30% (2003: 30%)	-	-
Deferred tax		
- current period	-	-
Total tax on profit 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:

	2004 US\$000	2003 US\$000
Loss on ordinary activities before tax	-	(30)
Tax benefit on loss on ordinary activities at standard UK corporation tax rate of 30% (2003: 30%)	-	9
Effects of:		
Group relief for nil consideration	-	(9)
Current tax charge for the period	-	-

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004 (continued)

5. FIXED ASSET INVESTMENTS

	US\$000
As at 1 January 2004	494,891
Additions (i)	406,500
As at 31 December 2004	<u>901,391</u>

- (i) On 29 January 2004 the Company made an investment of US\$6,500,000 in the B shares of Centrica Finance (US) Limited. Centrica Finance (US) Limited is a UK incorporated entity. Its function is the provision of finance for the Centrica plc group's US activities.

On 28 May the company made an additional investment of US\$51,500,000 in the ordinary shares and US\$93,500,000 in the B shares of Centrica Finance (US) Limited.

On 27 July the company subscribed for an additional 41,000,000 ordinary shares of US\$1.00 each in the capital of Centrica Finance US Limited and an additional 4,193 shares in the capital of Centrica US Holdings Inc. for a consideration of US\$39,000,000.

On 13 October the company made an additional investment in the capital of Centrica Finance US Limited of US\$45,000,000.

On 23 December the company made a non-refundable contribution to paid up capital in Centrica US Holdings Inc. of US\$32,500,000.

On 23 December the Company also invested in US\$97,500,000 ordinary shares of Centrica Finance US Limited. The shares were issued at par value of US\$1.00.

At 31 December 2004 the Company had interests in the following principal undertakings. This information is given pursuant to section 231(5) Companies Act 1985.

Principal subsidiary undertakings	Business	Country of Incorporation	Proportion of nominal value of ordinary shares, or partnership interest held (%)
Centrica Finance (US) Limited (i)	Financing company	England and Wales	100
Centrica US Holdings Inc. (i)	Holding Company	USA	100
Bastrop Energy GP Inc.	Energy Supply	USA	100
CPL Retail Energy, LP (ii)	Energy supply	USA	100
Direct Energy, LP (ii)	Energy supply	USA	100
Centrica Bastrop Finance Holdings Limited (ii)	Holding Company	England and Wales	100
Energy America, LLC (ii)	Energy supply	USA	100
Frontera Generation Limited Partnership (ii)	Energy Supply	USA	100
Direct Energy Marketing Inc. (ii)	Energy Supply	USA	100
WTU Retail Energy, LP (ii)	Energy supply	USA	100

(i) Principal undertaking held directly by the Company

(ii) Principal undertakings held indirectly by the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004 (continued)

6. OTHER CREDITORS

	2004 US\$000	2003 US\$000
Amounts falling due within one year		
Amounts owed to group undertakings	(11)	(11)
	<u>(11)</u>	<u>(11)</u>

7. CALLED UP SHARE CAPITAL

	2004 US\$000	2003 US\$000
Authorised		
500,000,000 ordinary shares of £1 sterling each	895,050	895,050
1,000,000,000 ordinary shares of US\$1 each	1,000,000	1,000,000
100,000,000 ordinary B shares of US\$1 each	100,000	100,000
	<u>1,995,050</u>	<u>1,995,050</u>
Called up, allotted and partly or fully paid		
Ordinary shares of £1 sterling each	-	-
Ordinary shares of US\$1 each (i)	800,996	494,496
Ordinary B Shares of US\$1 each (ii)	100,000	-
	<u>900,996</u>	<u>494,496</u>

(i) Of this amount, US\$603,981,000 relates to 603,981,944 fully paid shares. There are 200,000,000 Ordinary shares of US\$1 in issue partly paid to a value of US\$197,015,487.

(ii) Ordinary B shares carry equal voting rights and rights on winding up to ordinary shares of the Company.

On 29 January 2004, the Company made call of US\$6,500,000 being US\$.065 per share on 100,000,000 issued ordinary B shares.

On 28 May 2004 the Company made additional calls of US\$145,000,000 being US\$0.2575 per ordinary share and US\$0.935 per ordinary B share. The ordinary B shares were fully paid up following this call.

On 27 July 2004, Centrica Beta Holdings Limited subscribed in cash for 80,000,000 ordinary shares of US\$1 each in the Company at par value.

On 13 October 2004, 45,000,000 ordinary shares of US\$1 each were allotted and issued to Centrica Beta Holdings Limited at par value.

On 22 December 2004 130,000,000 new ordinary shares were issued to Centrica Beta Holdings Limited at par value.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2004 (continued)

8. RECONCILIATION OF MOVEMENT IN RESERVES

	Special reserve US\$000 (i)	Profit and loss US\$000	Total US\$000
1 January 2004	210	174	384
Result for the financial year	-	-	-
31 December 2004	<u>210</u>	<u>174</u>	<u>384</u>

(i) The special reserve comprises foreign exchange gains arising on the re-translation of the Company's reserves to US dollars. Because the amounts have not been realised, they have been excluded from distributable reserves.

9. RECONCILIATION OF MOVEMENTS IN SHAREHOLDER FUNDS

	2004 US\$000	2003 US\$000
Shareholder funds as at 1 January	494,880	48,501
Issue of share capital	406,500	446,199
Exchange translation differences	-	210
Result / (loss) on ordinary activities after taxation for the financial year	-	(30)
Shareholder funds as at 31 December	<u>901,380</u>	<u>494,880</u>

10. POST BALANCE SHEET EVENTS

There were no post balance sheet events.

11. ULTIMATE PARENT COMPANY

Centrica Beta Holdings Limited is the immediate parent of the Company. Centrica plc is the ultimate parent undertaking and the only group to consolidate the financial statements of the Company. Copies of the Annual Report of Centrica plc may be obtained from the Company Secretary, Centrica plc, Millstream, Maidenhead Road, Windsor, Berkshire SL4 5GD or at www.centrica.com.