

CENTRICA ALPHA FINANCE LIMITED

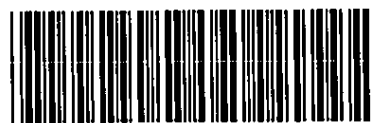
Annual Report and Accounts

For the year ended

31 December 2006

Registered No : 4577601

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ANNUAL REPORT AND ACCOUNTS 2006

| CONTENTS | Page |
|--|-------------|
| Directors' report | 3 |
| Independent auditors' report to the members of Centrica Alpha Finance Limited | 5 |
| Profit and loss account | 6 |
| Balance sheet | 7 |
| Notes to the financial statements | 8 |

DIRECTORS' REPORT

For the year ended 31 December 2006

The directors present their report and the audited financial statements of Centrica Alpha Finance Limited ("the Company") for the year ended 31 December 2006

Principal activities and future developments

The principal activity of the Company is to act as a financing company

The directors intend that the Company will continue to act as a financing company for the foreseeable future

Financial results, business review and dividends

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

The results of the Company are set out on page 6

The Company recorded a profit on ordinary activities after taxation of US\$16,673,000 (2005 US\$6,182,000) US\$16,673,000 has been transferred to reserves (2005 US\$6,182,000)

On 7 April 2006 all loans to Centrica Beta Holdings Limited were repaid in full including all outstanding interest On 7 April 2006 US\$240,666,016 was advanced to Centrica Finance (US) Limited The loan is repayable on demand and in any event on 31 March 2009 Interest accrues at the US Prime rate on the last day of the previous quarter and is paid quarterly in arrears on the first day of each quarter

Dividends

No dividends were paid for the year ended 31 December 2006 (year ended 31 December 2005 US\$nil)

Key performance indicators

Given the straightforward nature of the business, the company's directors are of the opinion that analysis using KPIs is not necessary for an understanding of the development, performance or position of the business

Principal risk and uncertainties

From the perspective of the company, the principal risks and uncertainties are integrated with the principal risks of the group and are not managed separately Accordingly, the principal risks and uncertainties for the Centrica group, which include those of the Company, are discussed on page 21 of the group's annual report which does not form part of this report

Group Treasury also seeks to limit counter-party risk by conducting most of its banking and dealing activities with a limited number of major international banks, where status is kept under review Details of the group financial risk management policy is set out on page 23 of the Centrica plc group Annual Report and Accounts

Directors

The following served as directors during the year, and up to the date of signing the financial statements

C Redcliffe

J A K Clark

Charitable and political donations

The Company made no political or charitable donations during the year (2005 US\$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

DIRECTORS' REPORT continued
For the year ended 31 December 2006

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

Disclosure of information to Auditors

Each of the persons who is a director at the date of approval of this report confirms that

- (1) so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware, and
- (2) each director has taken all steps that he/she ought to have taken as a director in order to make himself / herself aware of any relevant audit information and to establish that the Company's auditors are aware of the information

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to 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, except for changes arising on the adoption of new accounting standards,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK 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.

This report was approved by the Board on **31 October** 2007

for and on behalf of


Centrica Secretaries Limited

Company Secretary

31 October 2007

Registered office
Millstream
Maidenhead Road
Windsor
Berkshire SL4 5GD

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF CENTRICA ALPHA FINANCE LIMITED

We have audited the financial statements of Centrica Alpha Finance Limited for the year ended 31 December 2006 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the information given in the Directors' Report is consistent with the financial statements.

In addition, we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

BASIS OF AUDIT OPINION

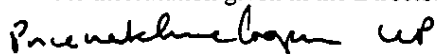
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the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

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

OPINION

In our opinion, the financial statements:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2006 and of its profit and cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London

WC2N 6RH

6 November

2007

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2006

| | Notes | 2006 US\$000 | 2005 US\$000 |
|--|-------|-----------------|-----------------|
| Interest receivable and similar income | 3 | 19,069 | 6,182 |
| Profit on ordinary activities before taxation | | 19,069 | 6,182 |
| Taxation on profit on ordinary activities | 5 | (2,396) | - |
| Retained profit for the financial year | 9 | 16,673 | 6,182 |

All amounts relate to continuing operations

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and its historic cost equivalents

There are no recognized gains or losses other than those included in the results above, and accordingly no separate statement of total recognised gains and losses has been presented


A statement of movements in shareholders funds is shown in note 10

The notes on pages 8 to 11 form part of these financial statements

BALANCE SHEET
As at 31 December 2006

| | Notes | 2006 US\$000 | 2005 US\$000 |
|---|-------|-----------------|-----------------|
| CURRENT ASSETS | | | |
| Debtors (amounts falling due in less than one year) | 6 | 255,522 | 236,453 |
| CURRENT LIABILITIES | | | |
| Creditors (amounts falling due within one year) | 7 | (2,396) | - |
| NET ASSETS | | <u>253,126</u> | <u>236,453</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 8 | 226,377 | 226,377 |
| Profit and loss account | 9 | 26,749 | 10,076 |
| TOTAL EQUITY SHAREHOLDERS FUNDS | 10 | <u>253,126</u> | <u>236,453</u> |

The financial statements were approved and authorised for issue by the board of directors on **31/10** 2007
and were signed on its behalf by


Director

The notes on pages 8 to 11 form part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS**For the year ended 31 December 2006****1. PRINCIPAL ACCOUNTING POLICIES****Accounting principles**

The financial statements have been prepared in accordance with applicable UK accounting standards, consistently applied throughout the year except for the adoption of new accounting standards, and under the historical cost convention and the Companies Act 1985. The Company has adopted FRS 20 "share based payment" in these financial statements. The adoption of this standard represents a change in accounting policy. There has been no impact on the current or prior year as a result of this change in policy.

Exemptions

The company is a wholly-owned subsidiary of Centrica PLC and is included in the consolidated financial statements of Centrica PLC which are publicly available. Consequently, the company has taken advantage of the exemption from preparing consolidated financial statements under the terms of section 228 of the Companies Act 1985.

Basis of preparation

The financial statements have been prepared on a going concern basis.

Reporting currency

The directors consider that the currency of the primary economic environment in which the Company operates and generates net cash flows is US dollars. Accordingly the financial statements have been prepared in US dollars. The 31 December 2006 US dollar to Sterling exchange rate used in the preparation of these financial statements was 1.9589 (2005: 1.723).

Foreign currencies

Monetary assets and liabilities in foreign currencies are translated into sterling (or alternatives) at rates of exchange ruling at the end of the year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of transaction. All foreign exchange differences have been taken to the profit and loss account in the year.

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 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 2006

2. DIRECTORS AND EMPLOYEES

There were no employees during the year (2005 nil) The directors are remunerated by other group undertakings in respect of their services to the Group and this could not be allocated on a reasonable basis to the Company for either the current or prior year

All directors (2005 two) of the Company were members of one of the ultimate parent company's defined benefit schemes Details of the defined benefit pension schemes can be found in the Centrica plc 2006 Annual Report and Accounts The Company had no employees during the period ended 31 December 2006 (2005 nil)

3. INTEREST RECEIVABLE AND SIMILAR INCOME

| | 2006 US\$000 | 2005 US\$000 |
|--|-----------------|-----------------|
| Interest receivable from group companies | 19,069 | 6,182 |

4. OPERATING PROFIT

The remuneration of \$5,543 (2005 \$5,465) of the auditors of the Company for audit services was borne by Centrica plc in both the years ended 31 December 2006 and 2005

5 TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

| | 2006 US\$000 | 2005 US\$000 |
|--|-----------------|-----------------|
| Corporation tax at 30% | 2,396 | - |
| Deferred tax | - | - |
| - current period | - | - |
| Total tax on profit on ordinary activities | 2,396 | - |

The tax assessed for the year is lower (2005 lower) than the standard rate of corporation tax in the UK (30%) The differences are explained below

| | 2006 US\$000 | 2005 US\$000 |
|--|-----------------|-----------------|
| Profit on ordinary activities before tax | 19,069 | 6,182 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 30% (2005 30%) | 5,721 | 1,855 |
| Effects of | | |
| Prior year adjustment | 2,396 | (1,855) |
| Group relief not paid for | (5,721) | - |
| Current tax charge for the year | 2,396 | - |

6. DEBTORS

| | 2006 US\$000 | 2005 US\$000 |
|-------------------------------------|-----------------|-----------------|
| Amounts falling due within one year | | |
| Amounts owed by group undertakings | 255,522 | 236,453 |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

6. DEBTORS (continued)

On 7 April 2006 the loans to Centrica Beta Holdings Limited were repaid in full including all outstanding interest. On 7 April 2006 US\$240,666,016 was advanced to Centrica Finance (US) Limited. The loan is unsecured and repayable on demand and in any event on 31 March 2009. Interest accrues at the US Prime rate on the last day of the previous quarter and is paid quarterly in arrears on the first day of each quarter.

7. CREDITORS

| | 2006 £000 | 2005 £000 |
|-------------------------------------|--------------|--------------|
| Amounts falling due within one year | | |
| Corporation Tax | 2,396 | - |

8. SHARE CAPITAL

| | 2006 US\$000 | 2005 US\$000 |
|--|-----------------|-----------------|
| Authorised | | |
| 273,700,000 ordinary shares of US\$1 each (2005 273,700,000) | 273,700 | 273,700 |
| 2,263,000 deferred shares of US\$100 each (2005 2,263,000) | 226,300 | 226,300 |
| | <u>500,000</u> | <u>500,000</u> |
| Called up, allotted and fully paid | | |
| 77,372 ordinary shares of US\$1 each (2005 77,372) | 77 | 77 |
| Called up, allotted and partly paid | | |
| 2,263,000 deferred shares of US\$100 each (2005 2,263,000) | 226,300 | 226,300 |
| | <u>226,377</u> | <u>226,377</u> |

On 6 December 2002, Centrica US Holdings Inc. subscribed in cash for US\$77,370 of ordinary share capital at par and for 2,263,000 of deferred shares of the Company, paid up US\$0.01. Subsequently, on 20 December 2002, Centrica US Holdings Inc. transferred its entire holding of ordinary shares and the beneficial interest in its entire holding of deferred shares of the Company to Centrica Finance (US) Limited. On 22 December 2003, the Company called US\$39.33 per deferred share or US\$89,003,790. On 22 December 2004, the Company called US\$2.57 per deferred share or US\$5,815,910.

On 20 December 2005 the company called a further US\$23,557,830 being the December 2005 subscription. The net present value of the remaining 2006 and 2007 subscriptions amounting to \$98,349,980 were also called and paid on 20 December 2005. The legal ownership of these shares was then transferred to Centrica Finance (US) Limited which on 20 December 2005 made the final subscription of \$4.22 per share amounting to US\$9,549,860.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2006

9. RECONCILIATION OF MOVEMENT IN RESERVES

| | 2006 US\$000 | 2005 US\$000 |
|--|-----------------|-----------------|
| As at the beginning of the year | 10,076 | 3,894 |
| Retained profit for the year | 16,673 | 6,182 |
| Shareholders funds as at the end of the year | <u>26,749</u> | <u>10,076</u> |

10. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDER FUNDS

| | 2006 US\$000 | 2005 US\$000 |
|---|-----------------|-----------------|
| Equity shareholder funds at the beginning of the year | 236,453 | 98,814 |
| Issue of share capital | - | 131,457 |
| Retained profit for the year | 16,673 | 6,182 |
| Equity shareholder funds as at 31 December | <u>253,126</u> | <u>236,453</u> |

11. IMMEDIATE AND ULTIMATE PARENT COMPANY

Centrica Finance (US) Limited is the immediate parent company Centrica plc is the ultimate parent undertaking and the only group to consolidate the financial statements of the Company Copies of the Annual Report of Centrica plc may be obtained from www.centrica.com