

CENTRICA ALPHA FINANCE LIMITED

Annual Report and Accounts

For the year ended

31 December 2005

Registered No : 4577601



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COMPANIES HOUSE 31/10/2006

ANNUAL REPORT AND ACCOUNTS 2005

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DIRECTORS' REPORT**For the year ended 31 December 2005**

The directors present their report and the audited financial statements of Centrica Alpha Finance Limited ("the Company") for the year ended 31 December 2005.

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\$6,182,000 (2004 US\$3,796,000). US\$6,182,000 has been transferred to reserves (2004 US\$3,796,000).

During the year, the Company granted loans totalling US\$136,662,216 to Centrica Beta Holdings Limited, and called US\$131,457,670 on its 2,260,000 partly paid deferred shares of US \$100 each.

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.

No dividends were paid for the year ended 31 December 2005 (year ended 31 December 2004: US\$nil).

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

I G Dawson (Resigned 1 December 2005)

P K Bentley (Resigned 1 December 2005)

At no time during the year ended 31 December 2005 did any director have any interests in the shares of the Company or any other company in the Centrica group, except the interests in, and options over, the shares and interests of the ultimate parent company, Centrica plc.

Directors' interests in shares (as defined by section 325 of the Companies Act 1985)

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

Beneficial interests in ordinary shares

| | As at 31 December 2005 | As at 31 December 2004 |
|-------------|------------------------|------------------------|
| J A K Clark | 2,325 | 1,447 |
| C Redcliffe | 1,136 | 11,335 |

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

DIRECTORS' REPORT**For the year ended 31 December 2005 (continued)****Centrica Sharesave scheme**

| | As at 1 January 2005 | Options granted during the period | Options exercised during the period | Options lapsed during the period | As at 31 December 2005 |
|-------------|-------------------------|---|---|--|---------------------------|
| C Redcliffe | 5,349 | 5,053 | 5,349 | - | 5,053 |
| J A K Clark | 5,973 | - | - | - | 5,973 |

Options over shares in Centrica plc were granted under the terms of the sharesave scheme on 6 April 2005 at an option price of 187.5 pence per share.

Centrica Long-term Incentive scheme

| | As at 1 January 2005 | Allocations granted during the period | Allocations vested during the period | Allocations lapsed during the period | As at 31 December 2005 |
|-------------|-------------------------|--|--|--|---------------------------|
| C Redcliffe | 95,903 | 29,236 | 18,722 | (5,688) | 100,729 |
| J A K Clark | 161,280 | 48,961 | 33,777 | (10,262) | 166,202 |

Total allocations as at 31 December 2005 shown above are subject to challenging performance conditions. At the end of performance period the Total Shareholder Return of Centrica plc will be assessed against that of the relevant LTIS comparator group. If, and to the extent that, the performance conditions are met, the relevant number of shares will be released to the directors at the Trustee's discretion as soon as practicable thereafter.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2005 at a price of 228 pence per share respectively.

Centrica Executive Share Option scheme (ESOS)

| | As at 1 January 2005 | Options granted during the period | Options exercised during the period | Options lapsed during the period | As at 31 December 2005 |
|-------------|-------------------------|--|--|---|---------------------------|
| J A K Clark | 314,690 | 97,922 | - | - | 412,612 |

Under the terms of the ESOS a further grant of options was made on 1 April 2005 at an option price of 228 pence per share.

Options were granted under the terms of the ultimate parent company's Sharesave scheme and ESOS, and allocations made under the terms of the LTIS. Details of these schemes and the Share Incentive Plan can be found in the 2005 accounts of Centrica plc, copies of which can be obtained from www.centrica.com.

The middle market price of a Centrica plc ordinary share on the last day of trading of 2005 (30 December) was 254.75 pence. The range during the year was 264.75 pence (high) and 217.50 pence (low).

DIRECTORS' REPORT

For the year ended 31 December 2005 (continued)

As at 31 December 2005, nil shares and 2,591 shares (1 January 2005: 6,370,264 and 2,548) were held by the respective Trustees of the employee share trusts for the purpose of the LTIS and the Share Incentive Plan. As with other employees, 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 or any of its subsidiary and associated undertakings is a party and in which any director is or was materially interested.

Charitable and political donations

The Company made no political or charitable donations during the year (2004: US\$nil).

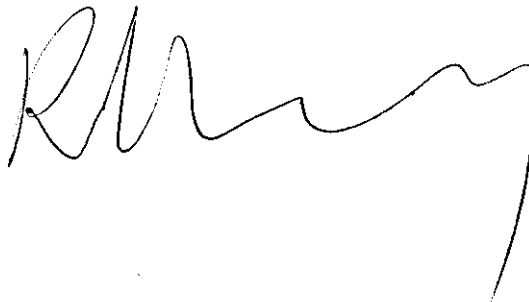
Directors' and officers' liability

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

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 30 October 2006.



for and on behalf of
Centrica Secretaries Limited
Company Secretary
30 October 2006

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, except for changes arising on the adoption of new accounting standards;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

We have audited the financial statements of Centrica Alpha Finance Limited for the year ended 31 December 2005 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

As described in the Statement of Directors' Responsibilities the Company's directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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 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 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

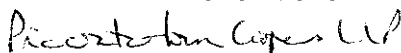
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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:

- 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 2005 and of its result for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.



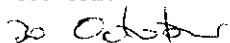
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

1 Embankment Place

London

WC2N 6RH



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PROFIT AND LOSS ACCOUNT**For the year ended 31 December**

| | Notes | 2005 US\$000 | 2004 US\$000 |
|--|-------|-----------------|-----------------|
| Interest receivable | 3 | 6,182 | 3,796 |
| Profit on ordinary activities before taxation | | 6,182 | 3,796 |
| Taxation on profit on ordinary activities | | - | - |
| Profit on ordinary activities after taxation | | 6,182 | 3,796 |
| Retained profit for the financial period | 8 | 6,182 | 3,796 |

All activities 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 gains or losses in the period other than those recognised in the profit and loss account, and accordingly no Statement of Total Recognised Gains and Losses has been presented.


A statement of movements in shareholders funds is shown in note 8.

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

BALANCE SHEET
As at 31 December 2005

| | Notes | 2005 US\$000 | 2004 US\$000 |
|--|-------|-----------------|-----------------|
| CURRENT ASSETS | | | |
| Debtors | 5 | <u>236,453</u> | <u>98,814</u> |
| NET ASSETS | | <u>236,453</u> | <u>98,814</u> |
| CAPITAL AND RESERVES | | | |
| Called up share capital | 6 | 226,377 | 94,920 |
| Profit and loss account | 7 | <u>10,076</u> | <u>3,894</u> |
| TOTAL EQUITY SHAREHOLDERS FUNDS | 8 | <u>236,453</u> | <u>98,814</u> |

The financial statements were approved and authorised for issue by the board of directors on 30 October 2006 and were signed on its behalf by:


J.A.K. Clark
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 2005****1. PRINCIPAL ACCOUNTING POLICIES****Accounting principles**

The financial statements have been prepared in accordance with applicable UK accounting standards, consistently applied, and under the historical cost convention and the Companies Act 1985. The Company has adopted FRS 17 "Retirement benefits", FRS 21, "Events after the balance sheet date", FRS 25, "Financial instruments: disclosure and presentation", FRS 28 "Corresponding amounts" in these financial statements. The adoption of these standards represents a change in accounting policy. There has been no impact on the current or prior year as a result of these changes in policy.

Exemptions

The Company is a wholly owned subsidiary undertaking of Centrica plc. 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.

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 2005 US dollar to Sterling exchange rate used in the preparation of these financial statements was 1.72300.

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.

2. DIRECTORS AND EMPLOYEES

There were no employees during the year (2004: 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 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 2005 Annual Report and Accounts. The Company had no employees during the period ended 31 December 2005 (2004: nil).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005 (continued)

3. OPERATING PROFIT

| | 2005 US\$000 | 2004 US\$000 |
|--|-----------------|-----------------|
| Interest receivable from group companies | 6,182 | 3,796 |

The audit fee in 2005 and 2004 was borne by Centrica plc, the ultimate parent undertaking of the Company.

4. TAX ON PROFIT ON ORDINARY ACTIVITIES

The tax charge comprises:

| | 2005 US\$000 | 2004 US\$000 |
|--|-----------------|-----------------|
| Corporation tax at 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:

| | 2005 US\$000 | 2004 US\$000 |
|--|-----------------|-----------------|
| Profit on ordinary activities before tax | 6,182 | 3,796 |
| Tax on profit on ordinary activities at standard UK corporation tax rate of 30%: | 1,855 | 1,139 |
| Effects of: | | |
| Group relief not paid for | (1,855) | (1,139) |
| Current tax charge for the period | - | - |

5. DEBTORS

| | 2005 US\$000 | 2004 US\$000 |
|---|-----------------|-----------------|
| Amounts falling due in less than one year | | |
| Amounts owed by group undertakings | 236,453 | 98,814 |
| | 236,453 | 98,814 |

On 22 December 2003 the Company granted a loan of \$89,103,792 to Centrica Beta Holdings Limited. Interest on the loan is calculated using the US\$ Prime rate applicable on the last day of the preceding quarter. Interest is payable quarterly in arrears. The loan is payable on demand with a long-stop repayment date of 23 December 2006. Further advances were made of \$5,815,910, \$5,204,546 and \$131,457,670 on 22 December 2004, 19 December 2005 and 20 December 2005 respectively.

Contingent amounts receivable from group undertakings

At 31 December 2004, the Company had in issue 2,263,000 deferred shares which are called up, allotted and partly paid. The Company's Articles of Association provide that the directors may call the remaining amount of US\$8.09 per deferred share during certain periods until 27 December 2007. During the year the Articles of Association, the subscription agreement and declaration of trust were amended and the remaining amounts paid up (details in note 6).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005 (continued)

6. SHARE CAPITAL

| | 2005 US\$000 | 2004 US\$000 |
|--|-----------------|-----------------|
| Authorised | | |
| 273,700,000 ordinary shares of US\$1 each | 273,700 | 273,700 |
| 2,263,000 deferred shares of US\$100 each | 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 (2004: 77,372) | 77 | 77 |
| Called up, allotted and partly paid | | |
| 2,263,000 deferred shares of US\$100 each (2004: 2,263,000) | 226,300 | 94,843 |
| | <u>226,377</u> | <u>94,920</u> |

The Company was incorporated on 30 October 2002 with issued share capital of two ordinary shares of US\$1 par value, held by Centrica US Holdings Inc. 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.

7. RECONCILIATION OF MOVEMENT IN RESERVES

| | 2005 US\$000 | 2004 US\$000 |
|---|-----------------|-----------------|
| As at the beginning of the year | 3,894 | 98 |
| Retained profit for the year | 6,182 | 3,796 |
| Shareholders funds at the end of the year | <u>10,076</u> | <u>3,894</u> |

8. RECONCILIATION OF MOVEMENTS IN EQUITY SHAREHOLDER FUNDS

| | 2005 US\$000 | 2004 US\$000 |
|---|-----------------|-----------------|
| Equity shareholder funds at the beginning of the year | 98,814 | 89,202 |
| Issue of share capital | 131,457 | 5,816 |
| Retained profit for the year | 6,182 | 3,796 |
| Equity shareholder funds as at 31 December | <u>236,453</u> | <u>98,814</u> |

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2005 (continued)

9. POST BALANCE SHEET EVENTS

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 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.

10. 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.