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ENERGY AMERICA LLC

25 Sheppard Ave. W., Suite 1400
North York, Ontario
Canada M2N 6S6
Tel: (416) 221-0310
Fax: (416) 221-1243

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VIA FEDERAL EXPRESS

February 21, 2001

Public Utilities Commission of Ohio
Docketing Department -10th Floor
180 East Broad Street
Columbus, Ohio 43215-3793

RE: Docket No. 00-019 (1) Application of Energy America, LLC for a Retail Electric Power Marketer License issued pursuant to case number 00-1936-EL-CRS

Docketing Department:

Pursuant to Competitive Retail Electric Service (CRES) Rule 4901: 1-24-10 *Changes in Provider Status* Energy America submits this filing: On January 19, 2001, Sempra Energy Trading Corp. ("Sempra Trading") and Sempra Energy Information Solutions ("SEIS"), which together own 72.5% of Energy America, sold such interests to Centrica plc ("Centrica"), the ultimate parent company of Direct Energy Marketing Inc, which owns the remaining 27.5% of Energy America (the "Transaction"). The Transaction is a sale among existing partners in the company and Energy America has not transferred its supplier authorization to another supplier. Therefore, the Transaction ensures continuity of service to Energy America's customers.

Centrica is a leading supplier of energy and services at home and on the road in the United Kingdom, trading under the British Gas, Scottish Gas, AA and Goldfish brands. In August 2000, Centrica acquired Canada's Direct Energy Marketing Limited ("DEML"). With the closing of the Transaction, Centrica now owns the largest unregulated energy sales operation in North America.

DEML is the largest provider of natural gas to retail consumers in Canada, with a fully integrated commodity trading and risk management team to support its retail sales operations. However, to ensure a seamless transition of services, Sempra Trading will continue to provide commodity procurement and risk management services to Energy America through June 2001. Accordingly, Energy America will continue to be managed with the same level of skill and knowledge, and provide the same quality level of service, as it has in the past.

All credit arrangements for Energy America currently in place with Sempra Energy or with Sempra Trading will expire and be replaced with appropriate credit arrangements by Centrica. In light of these changes, the credit review analysis for Energy America should consider the financial strength of Centrica (not any of the Sempra companies). To that end, provided herein are the audited financial statements of Centrica for the two most recent fiscal years. Please have your credit representative contact me at 416-221-4441 ext. 3300 to discuss what credit arrangements will be required of Centrica for Energy America's operations.

Please note that Energy America's updated address and list of contacts will be provided to you in June 2001 or sooner when Sempra Trading completes its transition services to Energy America.

We appreciate your assistance with this matter.

Sincerely,

for

David Balaban
Sr. Vice President
Energy America, LLC

The audit report reproduced below relates to the hard copy financial statements and as explained within the audit report to other information contained within the hard copy annual report. Therefore it does not relate to any information hyperlinked to/from the annual report.

The directors are responsible for the integrity of the Centrica web site. The auditors have not been engaged to report on the integrity of the Centrica web site. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the annual report including the audited financial statements to confirm the information included on this web site.

On Centrica's web site the financial statements for the year ended 31 December 1999 are included on the pages with the footer **"Financial statement"**.

REPORT OF THE AUDITORS TO THE MEMBERS OF CENTRICA plc

We have audited the financial statements which have been prepared under the historical cost convention and the accounting policies set out in note1.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the Annual Report. As described in the Statement of Directors' responsibilities for preparing the financial statements, this includes responsibility for preparing the financial statements in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange and our profession's ethical guidance.

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 United Kingdom Companies Act. 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 or the Listing Rules 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.

We review whether the Corporate Governance statement reflects the company's compliance with the seven provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 affairs of the Company and the Group at 31 December 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
1 Embankment Place, London WC2N 6NN

6 March 2000

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FINANCIAL STATEMENTS

Group profit and loss account for the year ended 31 December

	Notes	1999 Underlying business performance: Before goodwill amortisation £m	1999 Underlying business performance: Goodwill amortisation £m	1999 Exceptional charges £m	1999 Results for the year £m	1998 Underlying business[i] performance as restated[ii] £m	1998 Exceptional charges £m	1998 Results for the year as restated[ii] £m
Turnover:								
Continuing operations before acquisitions		**6 975**	–	–	**6 975**	7 312	–	7 312
Acquisitions		**159**	–	–	**159**	–	–	–
Continuing operations		**7 134**	–	–	**7 134**	7 312	–	7 312
Discontinued operations		**83**	–	–	**83**	169	–	169
Share of joint ventures' turnover		**56**	–	–	**56**	38	–	38
Group and share of joint ventures' turnover		**7 273**	–	–	**7 273**	7 519	–	7 519
Less share of joint ventures' turnover		**(56)**	–	–	**(56)**	(38)	–	(38)
Group turnover	3	**7 217**	–	–	**7 217**	7 481	–	7 481
Cost of sales	4	**(5 540)**	–	**(30)**	**(5 570)**	(6 212)	(63)	(6 275)
Gross profit/(loss)		**1 677**	–	**(30)**	**1 647**	1 269	(63)	1 206
Operating costs	4	**(1 249)**	**(13)**	**(46)**	**(1 308)**	(1 055)	(22)	(1 077)
Group operating profit/(loss):								
Continuing operations before acquisitions		**455**	**(1)**	**(59)**	**395**	245	(83)	162
Acquisitions		**(2)**	**(12)**	**(16)**	**(30)**	–	–	–
Continuing operations		**453**	**(13)**	**(75)**	**365**	245	(83)	162
Discontinued operations		**(25)**	–	**(1)**	**(26)**	(31)	(2)	(33)
	3	**428**	**(13)**	**(76)**	**339**	214	(85)	129
Share of operating profit/(loss) in joint ventures and associates:								
Continuing operations before acquisitions		**5**	–	–	**5**	(1)	–	(1)
Acquisitions		**(9)**	–	–	**(9)**	–	–	–
Continuing operations	3	**(4)**	–	–	**(4)**	(1)	–	(1)
Loss on closure of discontinued operations	4	–	–	**(60)**	**(60)**	–	–	–
Profit/(loss) on ordinary activities before net interest:								
Continuing operations before acquisitions		**460**	**(1)**	**(59)**	**400**	244	(83)	161
Acquisitions		**(11)**	**(12)**	**(16)**	**(39)**	–	–	–
Continuing operations		**449**	**(13)**	**(75)**	**361**	244	(83)	161
Discontinued operations		**(25)**	–	**(61)**	**(86)**	(31)	(2)	(33)
		424	**(13)**	**(136)**	**275**	213	(85)	128
Net interest	6	**(7)**	–	–	**(7)**	39	–	39
Profit/(loss) on ordinary activities before taxation		**417**	**(13)**	**(136)**	**268**	252	(85)	167
Tax on profit/(loss) on ordinary activities	7	**(86)**	–	–	**(86)**	(76)	–	(76)
Profit/(loss) on ordinary activities after taxation for the financial year		**331**	**(13)**	**(136)**	**182**	176	(85)	91
Dividends	8				**(100)**			(530)
Transfer to/(from) reserves	21				**82**			(439)
					Pence			Pence
Earnings per ordinary share – basic	9				**4.3**			2.1
– diluted	9				**4.3**			2.0
– adjusted	9				**7.9**			4.0

(i) Goodwill amortisation charges in 1998 were not material.
(ii) The comparative information for 1998 has been restated as set out in note 2 on page 35.

The notes on pages 33 to 56 form part of these financial statements.

Balance sheets as at 31 December

	Notes	Group 1999 £m	Group 1998 as restated (i) £m	Company 1999 £m	Company 1998 £m
Fixed assets					
Intangible assets	10	**992**	10	**-**	-
Tangible assets	11	**1 885**	1 904	**2**	1
Investments	12				
Joint ventures:					
Share of gross assets		**208**	18	**-**	-
Share of gross liabilities		**(241)**	(39)	**-**	-
Subsidiary undertakings		**-**	-	**222**	222
Other investments		**61**	54	**32**	22
		28	33	**254**	244
		2 905	1 947	**256**	245
Current assets					
Stocks	14	**84**	127	**-**	-
Debtors (amounts falling due within one year)	15	**1 284**	1 410	**1 480**	2 007
Debtors (amounts falling due after more than one year)	15	**120**	173	**173**	155
		1 404	1 583	**1 653**	2 162
Investments	16	**289**	341	**20**	323
Cash at bank and in hand		**15**	33	**3**	1
		1 792	2 084	**1 676**	2 486
Creditors (amounts falling due within one year)					
Borrowings	17	**(278)**	(60)	**(199)**	(24)
Other creditors	18	**(1 860)**	(1 603)	**(793)**	(1 978)
		(2 138)	(1 663)	**(992)**	(2 002)
Net current (liabilities)/assets		**(346)**	421	**684**	484
Total assets less current liabilities		**2 559**	2 368	**940**	729
Creditors (amounts falling due after more than one year)					
Borrowings	17	**(153)**	(91)	**-**	-
Other creditors	18	**(25)**	(78)	**(205)**	-
		(178)	(169)	**(205)**	-
Provisions for liabilities and charges	19	**(1 414)**	(1 314)	**(21)**	(12)
Net assets	3	**967**	885	**714**	717
Capital and reserves – equity interests					
Called up share capital	20	**222**	222	**222**	222
Share premium account	21	**3**	2	**3**	2
Merger reserve	21	**467**	467	**-**	-
Profit and loss account	21	**275**	194	**489**	493
Shareholders' funds	22	**967**	885	**714**	717

(i) The comparative information for 1998 has been restated as set out in note 2 on page 35.

The financial statements on pages 30 to 56 were approved by the Board of Directors on 6 March 2000 and were signed on its behalf by:

Sir Michael Perry CBE
Chairman

Mark Clare
Finance Director

The notes on pages 33 to 56 form part of these financial statements.

Group cash flow statement for the year ended 31 December

	Notes	1999 £m	1998 £m
Operating activities			
Cash inflow from operating activities before exceptional payments	24a	1 453	870
Payments relating to exceptional charges	24a	(135)	(211)
Cash inflow from operating activities after exceptional payments	24a	1 318	659
Dividends received from joint ventures and associates		11	1
Returns on investments and servicing of finance	24b	19	58
Taxation paid	24c	(163)	(215)
Capital expenditure and financial investment	24d	(143)	(70)
Acquisitions	24e	(1 162)	(101)
Equity dividends paid		(570)	-
Cash (outflow)/inflow before use of liquid resources and financing		(690)	332
Management of liquid resources	24f	392	(285)
Financing	24g	248	(42)
Net (decrease)/increase in cash for the year		(50)	5

Reconciliation of net cash flow to movement in debt, net of cash and money market investments for the year ended 31 December

	Notes	1999 £m	1998 £m
Net (decrease)/increase in cash for the year		(50)	5
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing		(248)	44
Cash (inflow)/outflow from (decrease)/increase in liquid resources		(392)	285
Change in cash and money market investments, net of debt, resulting from cash flows		(690)	334
New finance lease obligations		-	(7)
Current asset investments acquired	13	340	-
Loans acquired		-	(139)
Debt issued on acquisition		-	(6)
Movement in cash and money market investments, net of debt		(350)	182
Cash and money market investments, net of debt, as at 1 January	24h	223	41
Debt, net of cash and money market investments, as at 31 December	24h	(127)	223

Group statement of total recognised gains and losses for the year ended 31 December

	Notes	1999 £m	1998 as restated (i) £m
Profit for the financial year and total recognised gains relating to the year		182	91
Prior year adjustment	2	13	
Total gains recognised since last annual report		195	

(i) The comparative information for 1998 has been restated as set out in note 2 on page 35.

The notes on pages 33 to 56 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies

Accounting principles

The accounts have been prepared in accordance with applicable accounting standards and under the historical cost convention.

Basis of preparation

The Group accounts comprise a consolidation of the accounts of the Company and all of its subsidiary undertakings and incorporate the results of its share of all joint ventures and associates.

Turnover

Turnover includes the value of energy supplied and reflects an assessment of supplies to customers between the date of the last meter reading and the period end ('unread'). Unread gas and electricity is estimated for each individual customer.

Petroleum revenue tax

Provision is made on a unit of production basis for petroleum revenue tax expected to arise in the foreseeable future and is included within cost of sales. Changes in estimates are dealt with prospectively.

Long term incentive schemes

The cost of potential share awards under the Group's long term incentive schemes is charged to the profit and loss account over the period to which the performance criteria of each allocation relates.

Research and development expenditure

Research and development expenditure is charged to the profit and loss account as incurred.

Intangible fixed assets

Goodwill arising on the acquisition of a business acquired after 1 January 1998 is included in the balance sheet at cost, less accumulated amortisation. On the acquisition of a subsidiary undertaking, 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 which arose on acquisitions after 1 January 1998 is currently being amortised over a 20 year period. Goodwill which arose prior to 1998 was written off directly to the profit and loss reserve.

Tangible fixed assets

Tangible fixed assets are included in the balance sheet at cost, less accumulated depreciation and any provisions for impairment.

Freehold land is not depreciated. Other tangible fixed assets, except exploration and production 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:

Freehold and leasehold buildings	up to 50 years
Plant	5 to 20 years
Equipment and vehicles	3 to 6 years

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

Exploration and production assets are depreciated from the commencement of production in the fields concerned, using the unit of production method based on the proved and probable developed reserves of those fields. Changes in these estimates are dealt with prospectively. The net carrying value of fields in production is compared on a field-by-field basis with the likely future net revenues to be derived from the estimated remaining commercial reserves. A provision is made where it is considered that recorded amounts are unlikely to be fully recovered from the net present value of future net revenues.

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 borrowings. 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.

1 Principal accounting policies continued

Fixed asset 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 or estimated net realisable value.

'Take or Pay' contracts

Where payments are made to external suppliers under 'Take or Pay' obligations for gas not taken, they are treated as prepayments and are included within debtors.

Decommissioning costs

Provision is made for the net present cost of decommissioning gas production facilities. A corresponding tangible fixed asset is recognised in respect of the decommissioning costs, based on price levels and technology at the balance sheet date. This asset is amortised using the unit of production method, based on proved and probable developed reserves. Notional interest charges arise over time, based upon the discounted decommissioning liabilities.

Pensions

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.

Long-term sales contracts

Provision is made for the net present cost, using a risk-free discount rate, of any expected losses on long-term sales contracts. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

Deferred tax

Deferred tax, in respect of accelerated capital allowances and other timing differences, including pension provisions, is provided only to the extent that it is probable that a liability or asset will crystallise.

Financial instruments

Certain financial instruments are used by the Group to manage financial risks. Where financial instruments are used as hedges against financial risks, they are matched at their inception to the specific exposures they are designed to reduce. Gains and losses are released to the profit and loss account in the same period as the income and costs of the hedged transactions. Outstanding contracts used to hedge against trading items which themselves will be accounted for in the profits and losses of a future period, are not recognised, or are deferred when they mature and are carried forward to match against corresponding gains and losses when they occur.

The Group uses forward rate agreements to reduce exposures to movements in short-term interest rates. Gains and losses arising under these agreements are spread evenly over the duration of each forward rate agreement.

Gas futures, swaps, options and electricity contracts for difference are also undertaken in circumstances other than as a hedge against physical trades. Transaction costs are recognised at the time of the transaction. However, as the market for energy trading derivatives is not yet fully liquid, gains and losses relating to these energy derivatives are recognised in the profit and loss account when the deals are closed out.

2 Change in accounting policy

The comparative figures have been restated to fully provide for the net present cost of the decommissioning of gas production facilities. A corresponding asset has been recognised in respect of the decommissioning costs, which is subject to amortisation charges on a unit of production basis. Notional interest charges arise over time, based upon the discounted decommissioning liabilities. Previously the cost of decommissioning was being built up over the life of the fields concerned on a unit of production basis. These adjustments have been made in compliance with FRS 12 'Provisions, contingent liabilities and contingent assets'.

The effect upon current and comparative financial results and position is shown below:

For the year ended 31 December	1999 £m	1998 £m
Within the Group profit and loss account:		
Cost of sales	**7**	6
Net interest	**(3)**	(3)
Profit/(loss) on ordinary activities before taxation	**4**	3
Tax on profit/(loss) on ordinary activities	**(1)**	(1)
Profit/(loss) on ordinary activities after taxation for the financial year	**3**	2
Within the Group cash flow statement:		
Group operating profit	**7**	6
Depreciation and amortisation	**4**	4
Provisions	**(11)**	(10)
Cash inflow from operating activities before exceptional expenditure	**-**	-

As at 31 December	1999 £m	1998 £m
Within the Group balance sheet:		
Tangible fixed assets	**42**	43
Provisions for liabilities and charges	**(26)**	(30)
Profit and loss reserve	**16**	13

3 Segmental analysis

The segmental analysis has been amended to reflect more appropriately, in the opinion of the Directors, how the Group's activities are now managed. Energy Supply represents the production and supply of gas and supply of electricity to domestic, business and wholesale customers. Home Services' main activity is the service and installation of gas heating systems. Road Services comprises roadside assistance and other related services, whilst Financial Services' activities cover the provision of insurance and other financial products. Other Activities comprise a range of development activities. 'Financial Services – continuing operations' was previously classified within 'Other Activities'. Within turnover £117 million (1998 £13 million) related to exports outside of the United Kingdom. £2 million of turnover (1998 £nil) arose outside of the United Kingdom and £2 million of net assets (1998 £nil) were located outside the United Kingdom. The results of operations outside of the United Kingdom in 1998 and 1999 were not material.

		Turnover		Operating profit/(loss) before exceptional charges and amortisation of goodwill		Operating profit/(loss) after exceptional charges and amortisation of goodwill		Net assets/(liabilities)	
		1999 £m	1998 £m	1999 £m	1998 as restated [iv] £m	1999 £m	1998 as restated [iv] £m	1999 £m	1998 as restated [iv] £m
Energy Supply	– continuing operations	**6 384**	6 784	**461**	248	**406**	171	**659**	1 271
	– acquisitions [i]	**2**	–	**–**	–	**–**	–	**12**	–
		6 386	6 784	**461**	248	**406**	171	**671**	1 271
Home Services	– continuing operations	**585**	526	**20**	9	**16**	3	**(103)**	(51)
	– acquisitions [i]	**7**	–	**–**	–	**–**	–	**5**	–
		592	526	**20**	9	**16**	3	**(98)**	(51)
Road Services	– acquisitions [i]	**112**	–	**(3)**	–	**(21)**	–	**514**	–
Financial Services	– continuing operations	**2**	–	**(13)**	(5)	**(13)**	(5)	**(10)**	(2)
	– acquisitions [i]	**24**	–	**4**	–	**(5)**	–	**288**	–
		26	–	**(9)**	(5)	**(18)**	(5)	**278**	(2)
Other Activities	– continuing operations	**4**	2	**(13)**	(7)	**(14)**	(7)	**(8)**	–
	– acquisitions [i]	**14**	–	**(3)**	–	**(4)**	–	**(17)**	–
		18	2	**(16)**	(7)	**(18)**	(7)	**(25)**	–
Continuing operations before acquisitions		**6 975**	7 312	**455**	245	**395**	162	**538**	1 218
Acquisitions [i]		**159**	–	**(2)**	–	**(30)**	–	**802**	–
Continuing operations		**7 134**	7 312	**453**	245	**365**	162	**1 340**	1 218
Discontinued operations [ii]		**83**	169	**(25)**	(31)	**(26)**	(33)	**–**	8
Unallocated net liabilities [iii]		**–**	–	**–**	–	**–**	–	**(373)**	(341)
Group [v]		**7 217**	7 481	**428**	214	**339**	129	**967**	885
Share of operating profit/(loss) in									
joint ventures	– continuing operations					**5**	(2)		
	– acquisitions [i]					**(9)**	–		
associates	– continuing operations					**–**	1		
	– acquisitions [i]					**–**	–		
						(4)	(1)		
						335	128		

(i) 'Acquisitions' are explained in note 13 on page 43.

(ii) 'Discontinued operations' represented the segment previously reported as 'Retail'. On 19 July 1999, the Company announced the closure of its British Gas Energy Centre shops and as explained in note 4 on page 38, exceptional charges of £60 million were incurred.

(iii) Unallocated net liabilities comprised:

	1999 £m	1998 as restated [iv] £m
Fixed asset investments	**28**	33
Interest bearing transportation prepayments	**–**	242
Accrued interest	**18**	9
Dividend payable	**(60)**	(530)
Dividends receivable from joint ventures	**10**	–
Taxation	**(242)**	(318)
Debt, net of cash and money market investments	**(127)**	223
	(373)	(341)

(iv) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs, as explained in note 2 on page 35.

(v)	1999	1998
Group operating profit before exceptional charges and amortisation of goodwill	**428**	214
Amortisation of goodwill	**(13)**	–
Group operating profit before exceptional charges	**415**	214
Exceptional charges	**(76)**	(85)
Group operating profit	**339**	129

4 Costs

	1999				1998		
	Underlying business performance						
	Before goodwill amortisation £m	Goodwill amortisation £m	Exceptional charges [ii] £m	Results for the year £m	Underlying business performance as restated [iii] £m	Exceptional charges [ii] £m	Results for the year as restated [iii] £m
Cost of sales: [i]							
Continuing operations before acquisitions	5 405	–	30	5 435	6 107	63	6 170
Acquisitions	66	–	–	66	–	–	–
Continuing operations	5 471	–	30	5 501	6 107	63	6 170
Discontinued operations	69	–	–	69	105	–	105
	5 540	–	30	5 570	6 212	63	6 275
Operating costs: [i]							
Continuing operations before acquisitions	1 115	1	29	1 145	960	20	980
Acquisitions	95	12	16	123	–	–	–
Continuing operations	1 210	13	45	1 268	960	20	980
Discontinued operations	39	–	1	40	95	2	97
	1 249	13	46	1 308	1 055	22	1 077
Total costs	6 789	13	76	6 878	7 267	85	7 352

	1999			1998		
	Underlying business performance £m	Exceptional charges [ii] £m	Total £m	Underlying business performance as restated [iii] £m	Exceptional charges [ii] £m	Total as restated [iii] £m
Group operating profit/(loss) is stated after charging/(crediting):						
Contract renegotiations	–	30	30	–	63	63
Restructuring costs	–	36	36	–	3	3
Year 2000 costs	2	10	12	2	19	21
	2	46	48	2	22	24
Amortisation of goodwill	13	–	13	–	–	–
Depreciation and amortisation:						
Owned assets	234	–	234	204	–	204
Leased assets	33	–	33	3	–	3
	267	–	267	207	–	207
Impairment of tangible fixed assets	2	–	2	–	–	–
Operating lease rentals:						
Plant and machinery	17	–	17	17	–	17
Other	24	–	24	26	–	26
Profit on sale of tangible fixed assets	–	–	–	(7)	–	(7)
Euro preparation costs	1	–	1	1	–	1
Research and development costs	–	–	–	1	–	1
Auditors' remuneration:						
Statutory audit						
Company	0.2	–	0.2	0.2	–	0.2
Subsidiary undertakings	0.9	–	0.9	0.5	–	0.5
Other audit	0.3	–	0.3	0.4	–	0.4
Other	2.2	–	2.2	1.6	–	1.6
	3.6	–	3.6	2.7	–	2.7

(i) Gas transportation costs of £1,877 million (1998 £2,192 million) and electricity transportation and distribution charges of £108 million (1998 £2 million) were included within cost of sales. Other distribution costs were not material and operating costs were all considered to be administrative expenses.
(ii) Exceptional charges, including the loss on closure of discontinued operations, are explained on page 38. None had any effect on the tax charge for either 1999 or 1998.
(iii) The comparative information has been restated to reflect the change in accounting policy for gas production facilities decommissioning costs, as explained in note 2 on page 35.

4 Costs continued

Contract renegotiations

The Group has renegotiated certain long-term 'Take or Pay' contracts which potentially would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. In 1999 these renegotiations resulted in an exceptional charge of £30 million (1998 £63 million). During the year £30 million was paid in respect of the exceptional charge booked in 1999, with a further £33 million of payments relating to costs incurred in the previous year, bringing total payments in 1999 to £63 million (1998 £86 million). Unpaid elements amount to £20 million and were included in creditors due within one year and £135 million (after discounting adjustments) was included within provisions (which all related to 1997 charges). The amount included in provisions represented the net present cost of the estimated payments due in periods between the years 2002 and 2008.

Restructuring costs

The Group incurred restructuring costs of £36 million, largely comprising severance payments, which arose in Energy Supply, Home Services and the AA. The exceptional payments of £30 million in the year (1998 £10 million) included £7 million against provisions from earlier years. The £3 million restructuring charge in 1998 principally represented the costs of a reorganisation within Retail.

Year 2000

The Group incurred and paid £12 million (1998 £21 million) on Year 2000 computer systems business-readiness preparations, of which £10 million (1998 £19 million) represented bought-in services, which have been treated as exceptional.

Loss on closure of discontinued operations

On 19 July 1999, the Group announced the closure of its British Gas Energy Centre shops and consequently the business has been reported as 'discontinued operations'. Exceptional charges of £60 million were incurred, comprising £18 million of impairments included within tangible fixed assets (see note 11 on page 41) and £42 million included within provisions (see note 19 on pages 45 and 46). The £42 million provision largely comprised onerous property lease costs, severance payments and other closure costs, against which £32 million was paid during the year.

5 Directors and employees

a) Employee costs	1999 £m	1998 £m
Wages and salaries	**444**	355
Social security costs	**36**	28
Other pension costs (see note 23)	**42**	30
Long Term Incentive Scheme	**8**	5
Employee Profit Sharing Scheme	**8**	7
	538	425

Details of Directors' remuneration, share options, long term incentive scheme interests and pension entitlements on pages 22 to 24 of the Remuneration Report form part of these financial statements. Details of employee share schemes are given on page 26 and in note 20 on pages 46 and 47.

b) Average number of employees during the year	1999 Number	1998 Number
Energy Supply	**7 285**	6 595
Home Services	**8 386**	8 148
Road Services	**2 145**	-
Financial Services	**567**	36
Retail	**965**	1 648
Other Activities	**252**	-
	19 600	16 427

In 1999 all staff were employed in the United Kingdom with the exception of 68 staff in the Republic of Ireland. In 1998 all staff were employed in the United Kingdom. Since acquisition of the AA, the monthly average headcount for Road Services was 8,579, for Financial Services was 2,147 and for Other Activities was 865.

6 Net interest

	1999 £m	1998 as restated [i] £m
Total interest receivable:		
Interest receivable	**65**	84
Share of joint ventures' interest receivable	**1**	1
	66	85
Total interest payable:		
Interest payable on bank loans and overdrafts	**(22)**	(16)
Finance lease charges	**(18)**	(2)
Share of joint ventures' interest payable	**(3)**	(2)
Other interest payable	**(6)**	-
Notional interest arising on discounted items	**(24)**	(26)
	(73)	(46)
Net interest (payable)/receivable	**(7)**	39

(i) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs, as explained in note 2 on page 35.

7 Tax

	1999 £m	1998 as restated [i] £m
UK – corporation tax at 30.25% (1998 31%)	**114**	104
– adjustments in respect of prior years	**(18)**	-
– deferred corporation tax:		
deferred petroleum revenue tax relief	**(5)**	(8)
other timing differences	**(14)**	(17)
change in corporation tax rate (1998 31% to 30%)	**-**	(6)
	77	73
– joint ventures	**6**	3
– associates	**3**	-
Tax charge [ii]	**86**	76

(i) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs, as explained in note 2 on page 35.
(ii) The tax charge arose principally in respect of the profits from tax ring-fenced gas production activities. Losses that have arisen elsewhere in the Group cannot be offset against these ring-fenced profits.

8 Dividend

	1999 £m	1998 £m
Interim dividend of 1.0p (1998 nil) per ordinary share	**40**	-
Proposed final dividend of 1.5p (1998 nil) per ordinary share	**60**	-
Special dividend of nil (1998 12.0p) per ordinary share	**-**	530
	100	530

The special dividend for 1998 was paid on 23 June 1999. Under a related share consolidation, for every ten former ordinary shares nine new ordinary shares were issued in their place.

The interim dividend was paid on 7 December 1999 and the proposed final dividend is payable on 21 June 2000 to shareholders on the register at the close of business on 2 May 2000.

9 Earnings per ordinary share

Earnings per ordinary share has been calculated by dividing the earnings for the financial year of £182 million (1998 £91 million as restated) by the weighted average number of ordinary shares in issue during the year of 4,186 million (1998 4,419 million). The number of shares excluded 25 million ordinary shares (1998 19 million), being the weighted average number of the Company's own shares on the Group balance sheet during the year.

The Directors believe that the presentation of an adjusted earnings per ordinary share, being the basic earnings per ordinary share adjusted for exceptional charges and goodwill amortisation, assists with understanding the underlying performance of the Group. The reconciliation of basic to adjusted basic earnings per ordinary share is as follows:

	1999		1998 as restated (i)	
	£m	Pence per ordinary share	£m	Pence per ordinary share
Earnings – basic	**182**	**4.3**	91	2.1
Discontinued operations' closure costs	**60**	**1.4**	–	–
Contract renegotiations	**30**	**0.7**	63	1.4
Restructuring costs	**36**	**0.9**	3	0.1
Year 2000 costs	**10**	**0.3**	19	0.4
Goodwill amortisation	**13**	**0.3**	–	–
Earnings – adjusted basic	**331**	**7.9**	176	4.0

In addition to basic and adjusted basic earnings per ordinary share, information is presented for diluted earnings per ordinary share. Under this presentation, there are no adjustments to the reported earnings for either 1999 or 1998, but the weighted average number of shares used as the denominator is adjusted. The adjustments relate mainly to notional share awards made to employees under the Long Term Incentive Scheme and the share options granted to employees under the Savings-related Share Option Scheme, as follows:

	1999 Number millions (ii)	1998 Number millions
Weighted average number of shares in issue	**4 186**	4 419
Estimated vesting of Long Term Incentive Scheme shares	**24**	16
Dilutive effect of shares to be issued at a discount to market value under the Savings-related Share Option Scheme	**37**	28
Potentially dilutive shares issuable under the Executive Share Option Scheme	**1**	1
Weighted average number of shares used in the calculation of diluted earnings per ordinary share	**4 248**	4 464

(i) The comparative information for 1998 has been restated as set out in note 2 on page 35.
(ii) On 10 May 1999, the Company consolidated ten existing ordinary shares into nine new ordinary shares.

10 Intangible fixed assets – goodwill

	£m
Group	
Cost	
As at 1 January 1999	10
Additions (see note 13)	995
As at 31 December 1999	**1 005**
Amortisation	
As at 1 January 1999	–
Charge for the year	13
As at 31 December 1999	**13**
Net book value	
As at 31 December 1999	**992**
As at 31 December 1998	10

There were no intangible fixed assets for the Company (1998 £nil).

11 Tangible fixed assets

	Land and buildings [i] £m	Plant, equipment and vehicles [ii] £m	Exploration and production [ii] as restated [iii] £m	Total as restated [iii] £m
Group				
Cost				
As at 1 January 1999	55	341	2 920	3 316
Additions	4	74	52	130
Acquisitions (see note 13)	61	81	–	142
Disposals	(1)	(30)	–	(31)
As at 31 December 1999	**119**	**466**	**2 972**	**3 557**
Depreciation and amortisation				
As at 1 January 1999	20	144	1 248	1 412
Charge for the year	1	64	202	267
Impairment – exceptional	6	12	–	18
– other	–	2	–	2
Disposals	–	(27)	–	(27)
As at 31 December 1999	**27**	**195**	**1 450**	**1 672**
Net book value				
As at 31 December 1999	**92**	**271**	**1 522**	**1 885**
As at 31 December 1998	35	197	1 672	1 904

The Company's tangible fixed assets comprised equipment with a cost of £3 million and a net book value of £2 million (1998 cost and net book value £1 million).

(i) The net book value of the Group's land and buildings as at 31 December 1999 comprised freehold of £58 million (1998 £15 million), long leasehold of £29 million (1998 £14 million) and short leasehold of £5 million (1998 £6 million).

(ii) The net book value of tangible fixed assets held under finance leases as at 31 December 1999 within plant, equipment and vehicles was £14 million (1998 £25 million) and within exploration and production was £178 million (1998 £92 million). Included within exploration and production were £113 million of assets sold and leased back during the year (see note 24h) on page 51). The Company had no assets held under finance leases (1998 £nil).

(iii) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs as explained in note 2 on page 35.

12 Fixed asset investments

	Group					Company [iii]
		Joint ventures and associates				
	Own shares [i] £m	Shares [ii] £m	Loans £m	Other investments £m	Total [i] £m	£m
Cost						
As at 1 January 1999	22	2	37	3	64	244
Additions	10	–	3	–	13	10
Acquisitions [iv]	–	22	2	2	26	–
As at 31 December 1999	**32**	**24**	**42**	**5**	**103**	**254**
Amortisation and provisions						
As at 1 January 1999	(7)	–	–	(3)	(10)	–
Long term incentive schemes	(8)	–	–	–	(8)	–
Impairment [iv]	–	(11)	–	–	(11)	–
As at 31 December 1999	**(15)**	**(11)**	**–**	**(3)**	**(29)**	**–**
Share of retained profits less losses						
As at 1 January 1999	–	(21)	–	–	(21)	–
Share of profits less losses for the year	–	(4)	–	–	(4)	–
Dividends receivable by the Group	–	(21)	–	–	(21)	–
As at 31 December 1999	**–**	**(46)**	**–**	**–**	**(46)**	**–**
Net book value						
As at 31 December 1999	**17**	**(33)**	**42**	**2**	**28**	**254**
As at 31 December 1998	15	(19)	37	–	33	244

(i) The Centrica Employees Share Trust holds 29 million (1998 25 million) shares in the Company, representing 0.7% of the called up ordinary share capital (1998 0.6%), which had a market value as at 31 December 1999 of £51 million and a nominal value of £2 million (1998 £30 million and £1 million respectively). All other investments are unlisted.

(ii) Investments in joint ventures and associates represented the following underlying assets/(liabilities):

	1999 £m	1998 £m
Investments in joint ventures:		
Share of gross assets	208	18
Share of gross liabilities	(241)	(39)
	(33)	(21)
Investments in associates	–	2
	(33)	(19)

The Group's share of joint ventures' gross liabilities included loans payable to the Group amounting to £21 million (1998 £19 million). The Group's share of joint ventures' gross assets included receivables relating to the AA credit card. Goldfish credit card receivables are not reflected within the share of gross assets shown above because the nature of the underlying arrangements with the joint venture partner differ from those in place for the AA credit card.

(iii) The Company's investments represented £222 million (1998 £222 million) of ordinary shares in GB Gas Holdings Limited and interest-free loans of £32 million (1998 £22 million) from the Company to the Centrica Employees Share Trust.

(iv) Joint venture acquisitions of £22 million included goodwill of £12 million, of which £11 million has been impaired. The impairment related to goodwill arising on an equity interest in a power generation development company.

The principal undertakings of the Group are listed in note 29 on page 56.

13 Acquisitions

The Group acquired AA Corporation Limited and its subsidiary undertakings (the AA) on 23 September 1999. The Group also acquired the business and assets of Supercare Solutions Limited on 18 January 1999, and the business and assets of Totalgaz Limited on 11 August 1999. The acquisition method of accounting has been adopted. The analysis of assets and liabilities acquired and the fair value to the Group of the AA acquisition, and other acquisitions in aggregate, was as follows:

	AA Corporation Limited group			Other acquisitions (ii)	Total
	Book value (i) £m	Fair value adjustments (i) £m	Fair value £m	Fair value (iii) £m	Fair value £m
Intangible fixed assets	33	(33)	–	–	–
Tangible fixed assets (iv)	147	(11)	136	6	142
Fixed asset investments	14	–	14	–	14
Stocks	5	–	5	–	5
Debtors (amounts falling due within one year)	120	–	120	5	125
Current asset investments	340	–	340	–	340
Net bank loans and overdrafts	(1)	–	(1)	–	(1)
Creditors (amounts falling due within one year)	(419)	–	(419)	(3)	(422)
Provisions for liabilities and charges – restructuring (v)	(28)	–	(28)	–	(28)
– other	(89)	55	(34)	–	(34)
Net assets acquired	122	11	133	8	141
Goodwill arising (see note 10)			986	9	995
Cash consideration			1 119	17	1 136

(i) There were no material adjustments relating to differences in accounting policies. The book value of AA Corporation Limited group's assets and liabilities has been adjusted to align with the fair value of the assets and liabilities acquired. No value was attributed to goodwill recognised by the AA on transactions prior to the acquisition by the Group as no separable, identifiable intangible assets existed. Tangible fixed assets were reduced by £11 million to reflect adjustments to land and buildings of £6 million, following professional valuations, and to vehicles of £5 million down to their estimated market value. Provisions for liabilities and charges were reduced by £55 million, largely in respect of the release of pension provisions.

(ii) The pre-acquisition results after tax during the financial year for other acquisitions were not material.

(iii) The book value of other acquisitions included intangible fixed assets of £2 million which were not recognised as no separable, identifiable assets existed.

(iv) The book value of tangible fixed assets in the AA had been reduced by write-downs of £8 million relating to restructuring in the twelve months up to the date of acquisition.

(v) Provisions for liabilities and charges in respect of restructuring included £11 million which had been provided in the AA for restructuring costs in the twelve months up to the date of acquisition.

The summarised consolidated results of the AA for the period from 1 January 1999 to 22 September 1999 were as follows:

Summarised profit and loss account	£m
Turnover	449
Operating profit before exceptional charges	3
Operating loss after exceptional charges	(49)
Loss before taxation	(26)
Taxation	1
Loss after taxation for the financial year	(25)

The consolidated loss after taxation for the AA's financial year ended 31 December 1998 was £26 million, and there was a minority interest of £2 million. There were no recognised gains or losses other than those shown above.

14 Stocks

	Group	
	1999 £m	1998 £m
Gas in storage	**46**	82
Other raw materials and consumables	**19**	17
Finished goods and goods for resale	**19**	28
	84	127

There were no stocks for the Company (1998 £nil).

15 Debtors

Amounts falling due	Group 1999 within one year £m	Group 1999 after one year £m	Group 1998 within one year £m	Group 1998 after one year £m	Company 1999 within one year £m	Company 1999 after one year £m	Company 1998 within one year £m	Company 1998 after one year £m
Trade debtors	**208**	**–**	225	–	**–**	**–**	–	–
Accrued energy income	**798**	**–**	683	–	**–**	**–**	–	–
Amounts owed by Group undertakings	**–**	**–**	–	–	**1 473**	**173**	2 003	155
Other debtors	**110**	**5**	172	3	**6**	**–**	4	–
Prepayments and other accrued income:								
'Take or Pay'	**122**	**111**	47	158	**–**	**–**	–	–
Transportation	**–**	**–**	242	–	**–**	**–**	–	–
Other	**46**	**4**	41	12	**1**	**–**	–	–
	168	**115**	330	170	**1**	**–**	–	–
	1 284	**120**	1 410	173	**1 480**	**173**	2 007	155

16 Current asset investments

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Money market investments (i)	**289**	341	**20**	323

(i) Current asset investments included £113 million (1998 £18 million) held by the Group's insurance subsidiary undertakings and £4 million (1998 £2 million) held by the Law Debenture Trust, on behalf of the Company, as security to cover unfunded pension liabilities. These amounts were not readily available to be used for other purposes within the Group.

17 Borrowings

Amounts falling due	Group 1999 within one year £m	Group 1999 after one year £m	Group 1998 within one year £m	Group 1998 after one year £m	Company 1999 within one year £m	Company 1998 within one year £m
Bank loans and overdrafts	**46**	**–**	38	–	**4**	24
Bills of exchange payable	**69**	**–**	–	–	**69**	–
Commercial paper	**126**	**–**	–	–	**126**	–
Loan notes	**6**	**–**	5	1	**–**	–
Obligations under finance leases (i)	**31**	**153**	17	90	**–**	–
	278	**153**	60	91	**199**	24

(i) Group obligations under finance leases after more than one year as at 31 December 1999 were repayable as follows: between one and two years £30 million (1998 £18 million); between two and five years £98 million (1998 £48 million); and after five years £25 million (1998 £24 million). As at 31 December 1999 the Company had no finance lease obligations (1998 £nil).

18 Other creditors

Amounts falling due	Group 1999 within one year £m	Group 1999 after one year £m	Group 1998 within one year £m	Group 1998 after one year £m	Company 1999 within one year £m	Company 1999 after one year £m	Company 1998 within one year £m	Company 1998 after one year £m
Trade creditors	**541**	**–**	496	–	**2**	**–**	2	–
Amounts owed to Group undertakings	**–**	**–**	–	–	**712**	**205**	1 438	–
Taxation and social security	**111**	**–**	162	–	**–**	**–**	–	–
Other creditors	**396**	**–**	80	63	**4**	**–**	1	–
Accruals and deferred income:								
Transportation	**222**	**–**	–	–	**–**	**–**	–	–
Other	**530**	**25**	335	15	**15**	**–**	7	–
	752	**25**	335	15	**15**	**–**	7	–
Dividend payable	**60**	**–**	530	–	**60**	**–**	530	–
	1 860	**25**	1 603	78	**793**	**205**	1 978	–

19 Provisions for liabilities and charges

	As at 1 January 1999 as restated (i) £m	Acquisitions (see note 13) £m	Profit and loss charge/(credit) £m	Notional interest £m	Transfer from Group undertakings £m	Utilised in the year £m	As at 31 December 1999 £m
Group							
Decommissioning costs	113	–	–	4	–	–	**117**
Deferred petroleum revenue tax	689	–	23	–	–	(6)	**706**
Deferred corporation tax (ii)	172	–	(19)	–	–	–	**153**
Pension costs (excluding restructuring)	36	–	23	–	–	–	**59**
Other retirement benefits	–	15	–	–	–	–	**15**
Restructuring costs:							
Acquisitions (iii)	–	28	18	–	–	(11)	**35**
Pension	3	–	–	–	–	(3)	**–**
Closure of discontinued operations	–	–	42	–	–	(32)	**10**
Other	8	–	18	–	–	(16)	**10**
Sales contract loss and renegotiation provisions	271	–	–	16	–	(25)	**262**
Other	22	19	6	–	–	–	**47**
	1 314	62	111	20	–	(93)	**1 414**
Company							
Pension costs	3	–	1	–	–	–	**4**
Restructuring costs	–	–	–	–	3	–	**3**
Other	9	–	4	–	2	(1)	**14**
	12	–	5	–	5	(1)	**21**

(i) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs as explained in note 2 on page 35.

(ii) Group deferred tax (assets)/liabilities comprise:

	Amounts provided		Potential amounts unprovided/(unrecognised)	
	1999 £m	1998 as restated (i) £m	**1999** £m	1998 £m
Accelerated capital allowances	**329**	359	**(58)**	21
Deferred petroleum revenue tax relief	**(209)**	(204)	**–**	–
Other timing differences including losses carried forward	**33**	17	**(282)**	(368)
	153	172	**(340)**	(347)

There were no potential deferred tax (assets)/liabilities for the Company (1998 £nil).

(iii) Restructuring costs relating to acquisitions of £18 million represented £16 million within the AA and £2 million for integration costs within continuing operations.

Decommissioning costs

Provision has been made for the estimated net present cost of decommissioning gas production facilities at the end of their producing lives. The estimate has been based on proved and probable reserves, price levels and technology at the balance sheet date. The timing of decommissioning payments are dependant on the lives of a number of fields but are anticipated to occur between 2006 and 2045.

Deferred petroleum revenue tax

The provision for tax on gas and oil activities has been calculated on a unit of production basis. Payments against the closing provision are expected to commence in 2001.

Deferred corporation tax

Deferred tax, in respect of accelerated capital allowances and other timing differences, has been provided for only to the extent that it is probable that a liability or asset will crystallise.

Pension costs (excluding restructuring)

The pension provision represented the difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes in respect of retirement pensions and other related benefits.

Other retirement benefits

The provision represented an actuarial valuation of a commitment to provide post-retirement medical insurance cover for certain AA current and past employees.

Restructuring costs

The provision represented costs relating to surplus properties and redundancy. Surplus properties arose following the closure of retail operations in both Energy Centres and in the AA. The provision for redundancy costs mainly relates to the AA and reflects restructuring plans announced. The majority of these sums are expected to be spent during 2000 and 2001.

19 Provisions for liabilities and charges continued

Sales contract loss and renegotiation provisions

Provision has been made for the net present cost, using a risk-free discount rate, of expected losses on onerous long-term sales contracts. The provision has been based on the difference between the contracted sales price and the expected weighted average cost of gas. These contracts terminate in 2005 to 2009.

In addition, the Group has renegotiated certain long-term 'Take or Pay' contracts which would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. Provision has been made for the net present cost of the estimated payments due to suppliers as consideration for the renegotiations due in periods between years 2002 and 2008.

Other

Other provisions principally cover estimated liabilities in respect of claims reflected in the Group's insurance subsidiaries, and outstanding litigation.

20 Called up share capital

	1999 £m	1998 £m
Authorised share capital of the Company		
4 950 000 000 ordinary shares of 5$\frac{5}{9}$ pence each (1998 5 500 000 000 ordinary shares of 5 pence each)	**275**	275
100 000 cumulative redeemable preference shares of £1 each	**–**	–
Allotted and fully paid share capital of the Company		
3 995 580 491 ordinary shares of 5$\frac{5}{9}$ pence each (1998 4 438 448 069 ordinary shares of 5 pence each)	**222**	222

On 10 May 1999, the Company consolidated ten existing ordinary shares with a nominal value of 5 pence per ordinary share into nine new ordinary shares with a nominal value of 5$\frac{5}{9}$ pence per ordinary share.

During 1999 the following ordinary shares were issued on the exercise of employee share options:

	Executive Share Option Scheme		Savings-related Share Option Scheme	
	1999	1998	1999	1998
Number	**409 659**	2 087 391	**623 504**	159 855
Nominal value	**£20 483**	£104 370	**£33 807**	£7 993
Consideration	**£300 156**	£1 670 588	**£966 086**	£165 838

Executive Share Option Scheme

Options over 3 million ordinary shares were outstanding as at 31 December 1999 (1998 3.4 million ordinary shares) and are exercisable at varying dates up to 15 November 2004 at prices from 81.060 pence to 90.266 pence per share. Details of outstanding options held by Executive Directors are given on page 24.

Savings-related Share Option Scheme (Sharesave Scheme)

The Company operates an Inland Revenue approved Sharesave Scheme, which is open to all eligible employees including Executive Directors. The Sharesave Scheme is designed to provide a long-term savings and investment opportunity. Employees can save for periods of three or five years. During the year, options over 17 million ordinary shares were granted (1998 22 million ordinary shares) and options over 3 million ordinary shares lapsed (1998 4 million ordinary shares). Options over 81 million ordinary shares were outstanding as at 31 December 1999 (1998 67 million ordinary shares). These outstanding options are normally exercisable at varying dates up to May 2005 at prices from 46.4 pence to 127.8 pence per ordinary share. Details of options held by Executive Directors under the Sharesave Scheme are given on page 24.

Profit Sharing Scheme

The Company has an Inland Revenue approved employee Profit Sharing Scheme (the Scheme), which is for the benefit of all eligible employees including Executive Directors. The Scheme provides for the distribution to all eligible employees of a proportion of the Company's profit in the form of shares of the Company. Under the Scheme £8 million (1998 £7 million) has been charged to the profit and loss account for the purchase of ordinary shares of the Company. As described on page 26, an allocation under the Scheme will be made in 2000 in respect of the 1999 financial year. When shares are allocated under the Scheme they will be placed in trust for employees for three years.

20 Called up share capital continued

Long Term Incentive Scheme

The Centrica Employees Share Trusts (the Trusts) were established to acquire ordinary shares of the Company, by subscription or purchase, with funds provided by the Company, to satisfy rights to shares on the vesting of allocations made under the Company's long-term incentive arrangements. As at 31 December 1999, the Trusts had acquired 29 million ordinary shares, at a cost of £32 million (1998 25 million ordinary shares at a cost of £22 million), financed by interest-free loans from the Company. The shares have a market value as at 31 December 1999 of £51 million (1998 £30 million). All administration costs are borne by the Group.

Details of the Long Term Incentive Scheme, in which Executive Directors participate, can be found in the Remuneration Report on pages 20 and 21.

21 Reserves

	Group				Company		
	Share premium account £m	Merger reserve £m	Profit and loss account (i) £m	Total £m	Share premium account £m	Profit and loss account (ii) £m	Total £m
As at 1 January 1999 as previously stated	2	467	181	650	2	493	495
Prior year adjustment (iii)	–	–	13	13	–	–	–
As at 1 January 1999 as restated	2	467	194	663	2	493	495
Transfer from/(to) profit and loss account for the year	–	–	82	82	–	(4)	(4)
Issue of ordinary share capital (iv)	1	–	(1)	–	1	–	1
As at 31 December 1999	**3**	**467**	**275**	**745**	**3**	**489**	**492**

(i) Cumulative goodwill taken directly to the profit and loss reserve as at 31 December 1999 amounted to £85 million (1998 £85 million). This goodwill had been taken to reserves as a matter of accounting policy and will be charged in the profit and loss account should there be a subsequent disposal of the business to which it related.
(ii) As permitted by section 230(3) of the Companies Act 1985, no profit and loss account is presented for the Company. The Company's profit for the financial year was £96 million (1998 £949 million).
(iii) The prior year adjustment reflects the change in accounting policy for gas production facility decommissioning costs as explained in note 2 on page 35
(iv) The movement in the Group profit and loss account represented the difference between the share issue prices (being the market prices on the date of exercise of options) and the share option prices. This difference was funded by the Company and its subsidiaries. Shares were allotted to a qualifying share ownership trust, for subsequent transfer to eligible employees, who have exercised options.

22 Movement in shareholders' funds

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Profit on ordinary activities after taxation for the financial year as previously stated	**182**	89	**96**	949
Prior year adjustment (i)	**–**	2	**–**	–
Profit on ordinary activities after taxation for the financial year as restated	**182**	91	**96**	949
Dividends	**(100)**	(530)	**(100)**	(530)
	82	(439)	**(4)**	419
Issue of shares and reserves transfer (see note 21 (iv))	**–**	2	**1**	2
Net movement in shareholders' funds for the financial year	**82**	(437)	**(3)**	421
Shareholders' funds as at 1 January as previously stated	**872**	1 311	**717**	296
Prior year adjustment (i)	**13**	11	**–**	–
Shareholders' funds as at 31 December	**967**	885	**714**	717

(i) The prior year adjustment reflected the change in accounting policy for gas production facility decommissioning costs as explained in note 2 on page 35.

23 Pensions

Substantially all of the Group's employees as at 31 December 1999 were members of one of the four main schemes in the Group; the Centrica Staff Pension Scheme, the Centrica Engineers Pension Scheme, the AA Management Pension Scheme and the AA Staff Pension Scheme. These defined benefit schemes are funded to cover future pension liabilities in respect of service up to the balance sheet date. They are subject to independent valuations at least every three years, on the basis of which the qualified actuary certifies the rate of employers' contributions which, together with the specified contributions payable by the employees and proceeds from the Schemes' assets, are expected to be sufficient to fund the benefits payable under the Schemes.

Independent actuarial valuations as at 31 March 1998 showed aggregate actuarial asset values and those values relative to benefits due to members, (calculated on the basis of pensionable earnings and services as at 31 March 1998 on an ongoing basis using the projected unit method) as follows:

	Asset values £m	Asset values relative to benefits %
Centrica Staff	490	113
Centrica Engineers	277	116
AA Management	185	103
AA Staff	490	100

The long-term assumptions applied to calculate Group pension costs, as agreed with the independent actuary, are set out below. For the Centrica schemes, these assumptions are the same as those used to determine funding requirements. For the AA schemes, the assumptions used for determining funding were different.

	1999 %	1998 %
Rate of price inflation and pension increases	**3.00**	3.00
Annual rate of return on investments	**7.25**	7.25
Future increases in earnings	**5.00**	5.00
Dividend growth	**3.75**	3.75

The pension costs arising, together with unfunded pension costs, and the reconciliation to balance sheet provisions were as follows:

	Centrica Staff 1999 £m	Centrica Engineers 1999 £m	AA Management 1999 £m	AA Staff 1999 £m	Total 1999 £m	Total 1998 £m
Regular pension costs	**32**	**13**	**2**	**5**	**52**	42
Amortisation of surplus	**(4)**	**(2)**	**-**	**-**	**(6)**	(7)
	28	**11**	**2**	**5**	**46**	35
Interest	**(2)**	**(2)**	**-**	**-**	**(4)**	(5)
Net pension costs	**26**	**9**	**2**	**5**	**42**	30
Contributions paid	**(8)**	**(4)**	**(2)**	**(5)**	**(19)**	(12)
Increase in provision for pension costs	**18**	**5**	**-**	**-**	**23**	18
Utilisation of restructuring provision	**(3)**	**-**	**-**	**-**	**(3)**	(3)
Balance sheet provision as at 1 January	**26**	**13**	**-**	**-**	**39**	24
Balance sheet provision as at 31 December	**41**	**18**	**-**	**-**	**59**	39

Other retirement benefits

The Group has a commitment to provide post-retirement private medical insurance cover for certain AA current and past employees. The provision as at 31 December 1999 was established on an actuarial basis, assuming a 3 per cent per annum real increase in premiums. The last actuarial valuation, as at 31 December 1998, disclosed a deficit of £0.7 million, which has since been fully provided. An independent actuarial valuation is undertaken at least every three years. The net cost to the Group of other retirement benefits from 23 September to 31 December 1999 was £0.3 million (1998 £nil).

24 Notes to the Group cash flow statement

a) Reconciliation of operating profit to operating cash flow

	1999 £m	1998 as restated [i] £m
Group operating profit	**339**	129
Exceptional charges	**76**	85
Group operating profit before exceptional charges	**415**	214
Amortisation of goodwill	**13**	-
Depreciation and amortisation	**267**	207
Impairment of tangible fixed assets	**2**	-
Provisions	**30**	48
Profit on sale of tangible fixed assets	**-**	(7)
Decrease/(increase) in working capital:		
Stocks – decrease	**48**	41
Debtors – decrease	**297**	429
Creditors – increase/(decrease)	**381**	(62)
	726	408
Cash inflow/(outflow) from operating activities before exceptional payments:		
Continuing operations before acquisitions	**1 491**	918
Acquisitions	**(20)**	-
Continuing operations	**1 471**	918
Discontinued operations	**(18)**	(48)
	1 453	870
Payments relating to exceptional charges[ii]:		
Contract renegotiations	**(63)**	(86)
Restructuring costs	**(30)**	(10)
Discontinued operations' closure costs	**(32)**	-
Windfall Tax	**-**	(96)
Year 2000	**(10)**	(19)
	(135)	(211)
Cash inflow from operating activities after exceptional payments	**1 318**	659

i) The comparative information has been restated to reflect the change in accounting policy for gas production facility decommissioning costs as explained in note 2 on page 35

ii) The relationship of exceptional payments to exceptional charges is explained in note 4 on page 38.

b) Returns on investments and servicing of finance

	1999 £m	1998 £m
Interest received – acquisitions	**5**	-
– other operations	**56**	75
Interest paid	**(25)**	*(15)*
Interest element of finance lease rental payments	**(17)**	(2)
	19	58

c) Taxation paid

	1999 £m	1998 £m
UK corporation tax paid	**(167)**	(217)
Consortium tax relief received	**4**	2
	(163)	(215)

24 Notes to the Group cash flow statement continued

d) Capital expenditure and financial investment

		1999 £m	1998 £m
Purchase of tangible fixed assets	– acquisitions	(17)	–
	– other operations	(125)	(92)
Sale of tangible fixed assets	– acquisitions	7	–
	– other operations	5	40
Purchase of own shares		(10)	(9)
Loan to a joint venture		(3)	(9)
		(143)	(70)

e) Acquisitions

	1999 £m	1998 £m
Payments on acquisition of subsidiary undertakings (see note 13)[i]	(1 136)	(124)
Payments on acquisition of joint ventures[ii]	(12)	–
Payments of deferred consideration[iii]	(13)	(13)
Total cash payments	(1 161)	(137)
(Overdraft)/cash acquired	(1)	36
	(1 162)	(101)

(i) In 1998 acquisitions represented the acquisition of Centrica Resources Limited and Supergas Limited.

(ii) Payments on acquisition of joint ventures included £11 million in relation to an investment in Spalding Energy Company Limited.

(iii) Payments of deferred consideration represented preference dividends paid in relation to the change in the investment in Accord Energy Limited in 1997. Of the total deferred consideration of £98 million, £42 million had been paid by 31 December 1999 and after discounting adjustments, £70 million (1998 £79 million) remained outstanding within creditors.

f) Management of liquid resources

	1999 £m	1998 £m
Net sale/(purchase) of money market investments – acquisitions	90	–
– other operations	302	(285)
	392	(285)

g) Financing

	1999 £m	1998 £m
Debt due within one year:		
Net increase in short-term borrowings	171	24
Repayment of loans	–	(139)
Capital element of finance lease rentals	(36)	(21)
Sale and leaseback of fixed assets (see note 24h))	113	92
Issue of ordinary share capital	–	2
	248	(42)

24 Notes to the Group cash flow statement continued

h) Analysis of debt, net of cash and money market investments

	As at 1 January 1999 £m	Cash flow £m	Acquisitions (excluding cash and overdrafts) £m	Other non-cash changes £m	**As at 31 December 1999 £m**
Cash at bank and in hand	33	(18)	–	–	**15**
Overdrafts	(14)	(32)	–	–	**(46)**
		(50)			
Bank loans	(24)	24	–	–	**–**
Other borrowings	–	(195)	–	–	**(195)**
Loan notes due within one year	(5)	–	–	(1)	**(6)**
Loan notes due after more than one year	(1)	–	–	1	**–**
Obligations under finance leases	(107)	(77)	–	–	**(184)**
		(248)			
Current asset investments	341	(392)	340	–	**289**
	223	(690)	340	–	**(127)**

A total of £113 million (1998 £92 million) in obligations under finance leases arose during the year following the sale and leaseback of certain Morecambe gas field tangible fixed assets. This amount has been included as part of the cash flow movement.

25 Commitments and contingencies

a) Capital expenditure

As at 31 December 1999, the Group had placed contracts for capital expenditure amounting to £53 million (1998 £7 million). There were no capital expenditure commitments for the Company (1998 £nil).

b) Decommissioning costs

Centrica plc and its wholly owned subsidiary, Hydrocarbon Resources Limited, have agreed to provide security to a subsidiary undertaking of BG Group plc, BG Exploration and Production Limited, which, as original licence holder for the Morecambe gas fields, will have exposure to decommissioning costs relating to the Morecambe gas fields should liabilities not be fully discharged by the Group. The security is to be provided when the estimated future net revenue stream from the Morecambe gas fields falls below 150% of the estimated cost of such decommissioning. The nature of the security may take a number of different forms and will remain in force unless and until the costs of such decommissioning have been irrevocably discharged and the relevant Department of Trade and Industry decommissioning notice in respect of the Morecambe gas fields has been revoked.

c) Lease commitments

As at 31 December 1999 operating lease commitments of the Group for the following year were:

	Land and buildings		Other	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Expiring:				
Within one year	**1**	–	**2**	3
Between one and five years	**5**	5	**14**	12
After five years	**18**	18	**–**	–
	24	23	**16**	15

As at 31 December 1999 there were £2 million of land and building operating lease commitments for the Company (1998 £3 million). The Company has guaranteed operating lease commitments of a subsidiary undertaking as at 31 December 1999 of £4 million (1998 £7 million) in respect of land and buildings.

There were no commitments as at 31 December 1999 under finance leases entered into, but for which inception occurs after 31 December 1999 (1998 £nil), for the Group and Company.

d) Litigation

The Group has a number of outstanding disputes arising out of its normal activities, for which appropriate provisions have been made.

25 Commitments and contingencies continued

e) Guarantees and indemnities

The Company has a £935 million bilateral credit facility. Hydrocarbon Resources Limited and British Gas Trading Limited have guaranteed, jointly and severally, to pay on demand any sum which the Company does not pay in accordance with the facility agreement.

The Group has indemnified BG Group plc in respect of payments and/or losses, damages, claims, expenses or liabilities of any nature, arising out of or in connection with the Group's performance under certain long-term interruptible contracts which BG Group plc has guaranteed to third parties. Under the terms of the indemnity the Group will, in consideration of the guarantee, pay to BG Group plc a fee on each anniversary during the continuation of the guarantee.

The Company and BG Group plc have agreed, subject to certain limitations, to indemnify each other against certain actual and contingent liabilities associated with their respective businesses.

In relation to the sale and leaseback of Morecambe gas field tangible fixed assets recorded in these financial statements, the Company has given guarantees amounting to £205 million.

The Company has given guarantees to various counter-parties in relation to wholesale energy trading.

The Company gave a guarantee for £250 million during 1999 and a further guarantee for £150 million which commenced on 4 January 2000. Both of these guarantees were in favour of Transco (part of BG Group plc) to cover liabilities relating to gas pipeline transportation charges. The £150 million guarantee expired on 31 January 2000 and the £250 million guarantee expired on 29 February 2000.

Following the closure of the Energy Centres operations in July 1999, guarantees have been signed on certain former Energy Centre properties as a result of the reassignment of these leases.

f) Gas purchase contracts

The Group is contracted to purchase 78 billion therms of gas (1998 97 billion therms) under long-term contracts at prices, mainly determined by various baskets of indices, which may exceed market prices from time to time. In the face of full competition in the market for gas, the Group's exposure has been reduced by the renegotiation of lower volumes and/or prices under certain contracts and by entering into long-term sales contracts. Since January 1996 these actions, affecting 60 billion therms, have been achieved at a net present cost to the Group of £1,406 million. Whilst there remains uncertainty regarding future prices and market share, in the opinion of the Directors, no general provision for onerous contract losses is required.

The total volume of gas to be taken under these long-term contracts depends upon a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. Based upon the minimum volume of gas that the Group is contracted to pay for in any year, the profile of the contract commitments, after taking account of the renegotiations referred to above, is estimated as follows:

	1999 million therms	1998 million therms
Within five years	**42 400**	48 800
After five years	**35 700**	48 300
	78 100	97 100

The Directors do not consider it feasible to estimate the actual future cost of committed gas purchases as the Group's external weighted average cost of gas ('WACOG') is subject to indexation. Applying the Group's external WACOG for the year ended 31 December 1999 of 15.6 pence per therm would imply a Group financial commitment of approximately £12 billion (1998 £16 billion based on 16 pence per therm). In 1998 the future cost estimate was based on the WACOG for the three month period ended 31 December 1998. This was because the full year WACOG was not representative due to the impact of contract renegotiations which took effect from 1 October 1998.

The commitment profile is set out below:

	1999 £m	1998 £m
Within one year	**1 600**	1 900
Between one and five years	**5 000**	5 900
After five years	**5 600**	7 700
	12 200	15 500

26 Related party transactions

a) Joint ventures and associates

During 1999 the Group purchased services with a value of £49 million (1998 £50 million) from AccuRead Limited, a joint venture, and £28 million (1998 £36 million) from AG Solutions Limited, an associate. In 1999 the Group lent £3 million (1998 £9 million) to Goldbrand Development Limited, a joint venture. As at 31 December 1999 the outstanding balance on the loan account was £40 million (1998 £37 million). All other transactions with joint ventures and associates were not material to the Group.

b) Pension schemes

The administrative costs of the Centrica Staff and Engineers Pension Schemes amounting to £1 million (1998 £1 million) were borne by the Group.

c) Other

During 1998 the Group incurred net costs of £2 million under a joint marketing agreement with Privilege Insurance Company Limited (Privilege) for insurance products under the British Gas Home Insurance and Goldfish Home Insurance brands. Peter Wood, then a Non-Executive Director of Centrica plc, was able to exercise more than 30% of the votes able to be cast at general meetings of Privilege Insurance Holdings Limited, the parent company of Privilege, until 7 October 1998 when he disposed of his interests.

27 Financial instruments

The Group's use of financial instruments is explained under the heading of 'Financial Risk Management' in the 'Financial Review' on pages 15 and 16. The related accounting policies are explained in note 1 on page 34. As permitted within FRS 13, the disclosures set out below exclude short-term debtors and creditors, except for the information given in note 27b).

a) Interest rate risk profile of financial instruments

Financial assets

The interest rate risk profile of the Group's financial assets as at 31 December 1999 was as follows:

	1999 Sterling	1998 Sterling
Floating interest rate (£m)	**302**	374
Fixed interest rate (£m)	**44**	37
	346	411
Weighted average fixed interest rate (%)	**11.6**	12
Weighted average period for which rate is fixed (months)	**17**	30

With the exception of uncleared items, floating rate financial assets attract interest at rates based upon LIBOR for periods of one year or less.

Financial liabilities

After taking into account forward foreign currency swaps, the interest rate profile of the Group's financial liabilities as at 31 December 1999 was as follows:

	1999 Sterling	1998 Sterling
Floating interest rate (£m)	**(415)**	(126)
Fixed interest rate (£m)	**(16)**	(25)
No interest is payable (£m)	**(28)**	-
	(459)	(151)
Weighted average fixed interest rate (%)	**8.2**	8.2
Weighted average period for which rate is fixed (months)	**30**	28
Weighted average period for which no interest is payable (months)	**11**	-

With the exception of uncleared items, floating rate financial liabilities bear interest at rates based upon LIBOR for periods of one day to six months.

b) Currency risk

Sterling was the functional currency for all material operations in 1999 and 1998. Monetary assets and liabilities in currencies other than sterling, after taking into account relevant currency swaps, were not material. The cost of gas under long-term purchase contracts is dependent upon indices, which in part are influenced by US$ denominated oil prices. An element of the foreign (US$) exchange risk so arising is hedged using forward foreign currency contracts (see note 27g) on page 55).

27 Financial instruments continued

c) Maturity of financial liabilities

The maturity profile of the Group's financial liabilities as at 31 December 1999 was as follows:

	1999			1998		
	Borrowings (i) £m	Other financial liabilities £m	Total financial liabilities £m	Borrowings (i) £m	Other financial liabilities £m	Total financial liabilities £m
In one year or less, or on demand	**278**	**19**	**297**	60	–	60
In more than one year but not more than two years	**30**	**9**	**39**	19	–	19
In more than two years but not more than five years	**98**	**–**	**98**	48	–	48
In more than five years	**25**	**–**	**25**	24	–	24
	431	**28**	**459**	151	–	151

(i) See note 17 on page 44

d) Borrowing facilities

As at 31 December 1999, the Group had undrawn committed borrowing facilities, in which all conditions precedent had been met at that date, of £935 million (1998 £1,000 million). Of these facilities, 50% mature during 2000, whilst the remainder do not mature until 2003. In addition the Group has access to a number of uncommitted facilities.

The principal debt facility in use by the Group as at 31 December 1999 was a commercial paper programme of US$1,250 million (1998 US$nil), of which US$206 million (£126 million) was drawn at that date, all of which had been swapped into sterling.

e) Fair values of financial assets and liabilities

The following table shows the book and fair values of the Group's financial instruments as at 31 December 1999:

	1999		1998	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Primary financial instruments held or issued to finance the Group's operations:				
Cash at bank and in hand and money market investments (i)	**304**	**304**	374	374
Other financial assets (ii)	**42**	**42**	37	37
	346	**346**	411	411
Bank loans and overdrafts (i)	**(46)**	**(46)**	(38)	(38)
Bills of exchange (i)	**(69)**	**(69)**	–	–
Commercial paper (iv)	**(126)**	**(126)**	–	–
Loan notes (i)	**(6)**	**(6)**	(6)	(6)
Finance lease borrowings (iii)	**(184)**	**(202)**	(107)	(118)
Other financial liabilities (i)	**(28)**	**(28)**	–	–
	(459)	**(479)**	(151)	(162)
Derivative financial instruments held to manage the Group's currency profile and energy price exposures:				
Forward foreign currency contracts (iv)	**–**	**2**	–	3
Energy derivatives (v)	**–**	**8**	–	(4)
Derivative financial instruments held for trading:				
Energy derivatives (v)	**–**	**1**	–	6

(i) Due to the nature and short maturity of these financial instruments, book values approximated to fair values.
(ii) Fixed interest rate financial assets included a loan to a joint venture of £40 million (1998 £37 million). As at 31 December 1999, the interest rate charged on the loan reflected the inherent credit risk of the joint venture and accordingly the book value of the loan approximated to the fair value.
(iii) Fair values of these financial instruments are based upon discounted cash flows, using discount rates based upon the Group's cost of borrowing.
(iv) Fair values have been determined by reference to closing exchange rates as at 31 December.
(v) The fair values of energy derivatives are calculated as the product of the volume and the difference between their strike or traded price and the corresponding market prices, the market price is based upon the corresponding closing price of that market. Where there is no organised market and/or the market is illiquid, the market price is based upon internal assumptions taking into consideration all relevant current market and economic factors.

27 Financial instruments continued

f) Gains and losses on financial instruments held for trading

The net gain from trading in energy derivatives included in the Group profit and loss account for the year ended 31 December 1999 was £10 million (1998 £4 million). Energy derivatives used for this purpose comprised energy futures, swaps, options and electricity contracts for differences.

g) Gains and losses on hedges

The Group uses financial instruments to hedge its currency, energy price and weather exposures. Changes in the fair value of these derivatives used are not recognised in the financial statements until the hedged position itself is recorded therein. Unrecognised and deferred gains and losses on hedges arose as analysed below:

	Unrecognised			Deferred		
	Gains £m	Losses £m	Total net gains/(losses) £m	Gains £m	Losses £m	Total net gains/(losses) £m
Gains and (losses) as at 1 January 1999	3	(4)	(1)	–	(16)	(16)
Arising in previous years that were recognised in 1999	(3)	1	(2)	3	2	5
Gains and (losses) arising in previous years that were not recognised in 1999	–	(3)	(3)	3	(14)	(11)
Gains and (losses) arising in 1999	33	(20)	13	–	–	–
Gains and (losses) as at 31 December 1999	**33**	**(23)**	**10**	**3**	**(14)**	**(11)**
Of which:						
Gains and (losses) expected to be recognised in 2000	23	(9)	14	–	(7)	(7)
Gains and (losses) expected to be recognised in 2001 or later	10	(14)	(4)	3	(7)	(4)

28 Post balance sheet events

On 26 January 2000 the Group completed the renegotiation of a 'Take or Pay' gas purchase contract with Shell UK Limited. Under the agreement, prices will be reduced to market levels on around 1.5 billion therms of gas.

On 17 February 2000 a joint venture, Access Energy BV was formed with Essent NV, to develop wholesale energy trading in the Netherlands, Belgium and Germany. The joint venture is expected to commence trading on 31 March 2000.

29 Principal undertakings

	Country of incorporation	% Group holding in ordinary shares and net assets	Principal activity
As at 31 December 1999 (i)			
Subsidiary undertakings:			
AA Corporation Limited	England	100	Holding company
Accord Energy Limited (ii)	England	100	Wholesale energy trading
Automobile Association Developments Limited	England	100	Roadside and financial services
Automobile Association Insurance Services Limited	England	100	Financial services
Automobile Association Underwriting Services Limited	England	100	Roadside and financial services
British Gas Services Limited	England	100	Servicing and installation of gas heating systems
British Gas Trading Limited	England	100	Energy supply
Centrica Insurance Company Limited	Isle of Man	100	Insurance services
Centrica Reinsurance Company Limited	Isle of Man	100	Insurance services
Centrica Resources Limited	England	100	Gas production
GB Gas Holdings Limited	England	100	Holding company
Goldfish Guide Limited	England	100	Consumer services
Hydrocarbon Resources Limited	England	100	Gas production from the Morecambe fields
The Automobile Association Limited	Jersey	100	Roadside services
Joint ventures:			
Automobile Association Financial Services Limited	England	50	Financial services
AA Financial Services (iii)	England	50	Financial services
AccuRead Limited	England	49	Meter reading
Goldbrand Development Limited	England	50	Financial services
Spalding Energy Company Limited (iv)	Cayman Islands	42	Power generation
Associates:			
AG Solutions Limited (v)	England	40	Computer consultancy

(i) As at 31 December 1999, GB Gas Holdings Limited was a wholly owned subsidiary undertaking of the Company. GB Gas Holdings Limited held the investments in all other principal undertakings, except for Hydrocarbon Resources Limited where the investment was held by British Gas Trading Limited, and undertakings of the AA which were directly or indirectly held by AA Corporation Limited. The Automobile Association Limited was held directly by AA Corporation Limited and Automobile Association Developments Limited, Automobile Association Insurance Services Limited, Automobile Association Underwriting Services Limited, Automobile Association Financial Services Limited and AA Financial Services were held indirectly by AA Corporation Limited.

(ii) During 1997, the Group agreed with NGC Corporation (NGC) of Houston, Texas, to a reorganisation of the share structure of Accord Energy Limited (Accord). NGC's ordinary shareholding was converted into a 25% holding of preference shares in Accord and the Group has an option, which it is likely to exercise, to acquire those preference shares on or after 1 July 2000. The Group currently holds 75% of the preference shares in Accord. The change of control was accounted for as an acquisition for deferred consideration. Third party preference dividend payments and the capital payment anticipated on exercise of the Group's option are being/will be set against the deferred consideration of £98 million established upon change of control.

(iii) AA Financial Services is unincorporated and its principal place of business is Capital House, Queen's Park Road, Handbridge, Chester CH88 3AN.

(iv) GB Gas Holdings Limited holds 50% of the voting rights and the net assets.

(v) AG Solutions Limited has an accounting reference date of 31 March.