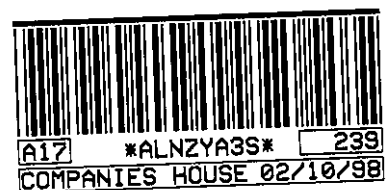


Associated Gas Supplies Limited

Report and Accounts

31 December 1997

2172239



Associated Gas Supplies Limited

Registered No. 2172239

DIRECTORS

P Y Moussel	(Chairman)
D Legros	(Managing Director)
M Romieu	(French)
A R Marshall	
B Le Borgne	(French)
J Fournier	(French)

SECRETARY

P Adams

AUDITORS

Ernst & Young
Becket House
1 Lambeth Palace Road
London SE1 7EU

REGISTERED OFFICE

30 Buckingham Gate
London SW1E 6NN

Associated Gas Supplies Limited

DIRECTORS' REPORT

The directors present their report and accounts for the year ended 31 December 1997.

RESULTS AND DIVIDENDS

The loss after taxation amounted to £5,513,202 in the year ended 31 December 1997 (31 December 1996 - £20,346,195). The directors do not propose a dividend in respect of the financial year (1996 - £Nil) leaving a retained loss for the year of £5,513,202 (1996 loss of £20,346,195).

REVIEW OF THE BUSINESS AND FUTURE DEVELOPMENTS

The activities of the company are to acquire gas supplies for sale to industrial, commercial, public sector and domestic customers. Turnover has increased during the year and the directors expect the current level of business to be maintained in the future.

DIRECTORS AND THEIR INTERESTS

The directors who served in the year were as follows:

P Y Moussel	(Chairman)	(French)
D Legros	(Managing Director)	(French)
M Romieu		(French)
P E Godec	(Resigned 17 December 1997)	(French)
A R Marshall		
A Bourgeois	(Resigned 17 December 1997)	(French)
B Le Borgne	(Appointed 17 December 1997)	(French)
J Fournier	(Appointed 17 December 1997)	(French)

There are no directors interests requiring disclosure under the Companies Act 1985.

FIXED ASSETS

The changes in fixed assets are shown in note 10 of these accounts.

AUDITORS

A resolution to reappoint Ernst & Young as auditors will be put to the members at the Annual General Meeting.

By order of the board



Peter Adams

Secretary

Date: 27.05.98.

Associated Gas Supplies Limited

STATEMENT OF DIRECTORS RESPONSIBILITIES IN RESPECT OF THE ACCOUNTS

Company law requires the directors to prepare accounts for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts;
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

Associated Gas Supplies Limited

REPORT OF THE AUDITORS

to the members of Associated Gas Supplies Limited

We have audited the accounts on pages 5 to 15, which have been prepared under the historical cost convention and on the basis of the accounting policies set out on page 7.

Respective responsibilities of directors and auditors

As described on page 3 the company's directors are responsible for the preparation of the accounts. It is our responsibility to form an independent opinion, based on our audit, on those accounts and to report our opinion to you.

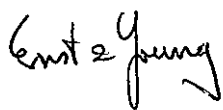
Basis of opinion

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

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

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the company as at 31 December 1997 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Ernst & Young
Chartered Accountants
Registered Auditor
London

Date: 27 May 1998

Associated Gas Supplies Limited

PROFIT AND LOSS ACCOUNT

for the year ended 31 December 1997

		1997	1996
	Notes	£	£
Turnover	3	279,147,690	199,514,097
Cost of sales - ordinary		(248,608,254)	(182,051,113)
- exceptional	17	12,392,691	8,624,678
Gross Profit		<u>42,932,127</u>	<u>26,087,662</u>
Distribution costs		(33,783,192)	(36,646,168)
Administrative expenses		(15,369,783)	(10,290,684)
Other operating income		1,442,020	1,254,557
Operating Loss	4	<u>(4,778,828)</u>	<u>(19,594,633)</u>
Interest receivable	7	1,350,174	430,794
Interest payable	8	(2,084,548)	(1,462,046)
Loss on ordinary activities before taxation		<u>(5,513,202)</u>	<u>(20,625,885)</u>
Tax on loss on ordinary activities	9	-	279,690
Retained Loss for the year	16	<u><u>(5,513,202)</u></u>	<u><u>(20,346,195)</u></u>

The company had no other recognised gains or losses during the year.

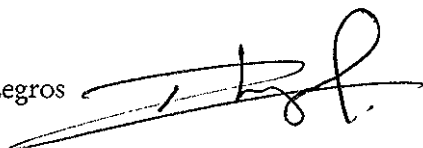
Associated Gas Supplies Limited

COMPANY BALANCE SHEET

at 31 December 1997

	Notes	1997 £	1996 £
FIXED ASSETS			
Tangible assets	10	2,614,670	2,939,731
Investments	11	93,452	252
		<u>2,708,122</u>	<u>2,939,983</u>
CURRENT ASSETS			
Debtors	12	78,725,104	58,215,617
Cash at bank and in hand		1,083,239	488,648
		<u>79,808,343</u>	<u>58,704,265</u>
CREDITORS: amounts falling due within one year	13	(136,466,244)	(97,688,135)
Net Current Liabilities		<u>(56,657,901)</u>	<u>(38,983,870)</u>
Total Assets Less Current Liabilities		<u>(53,949,779)</u>	<u>(36,043,887)</u>
Provision for liabilities and charges	14	(8,582,632)	(20,975,322)
NET ASSETS		<u>(62,532,411)</u>	<u>(57,019,209)</u>
CAPITAL AND RESERVES			
Called up share capital	15	1,819	1,819
Profit and loss account	16	(62,534,230)	(57,021,028)
		<u>(62,532,411)</u>	<u>(57,019,209)</u>

Didier Legros



Director

dean marshall

Date :

17.05.98

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

1. GOING CONCERN AND POST BALANCE SHEET EVENTS

Elf Petroleum UK plc have confirmed that they will continue to provide financial support for a minimum of a 12 month period from the date of these accounts, in order that the company can continue to meet its liabilities as they fall due. Accordingly the directors consider it appropriate to prepare the accounts on a going concern basis.

On 30th January 1998, the company transferred its holding of the entire issued share capital of AGAS Developments Limited and its interest in the ordinary share capital of Gas Technology Limited to its parent company Elf Aquitaine Gas UK Limited.

2. ACCOUNTING POLICIES

Accounting Convention

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

Depreciation

Depreciation is provided on all tangible fixed assets at rates calculated to write off the cost of each asset evenly over its expected useful life, as follows:

Lease premium on short leasehold property	-	Up to the next rent review
Office equipment	-	5 years
Vehicles	-	4 years
Computer equipment	-	4 years

Pension Costs

The Company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The cost of providing pension benefits is charged to the profit and loss account over the period benefiting from the employees services. The pension cost is assessed using the Projected Unit cost method.

Operating leases

Rentals payable by the company under operating leases are charged to the profit and loss account as incurred.

Cash Flow Statement

In accordance with paragraph 5(a) of FRS1 (Revised) the company has not prepared a cash flow statement.

Group Accounts

In accordance with S228(2) of the Companies Act, the company is exempt from preparing group accounts.

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

3. TURNOVER

Turnover comprises the amounts derived from the provision of goods and services which fall within the company's ordinary activities, and is stated net of VAT.

The turnover and pre-tax profit is attributable to one activity, the sale of gas, a trade which is carried out wholly within the United Kingdom.

4. OPERATING LOSS

Operating loss is after charging/(crediting):

	1997	1996
	£	£
Operating lease rentals	644,984	403,763
Loss/ (Profit) on sale of fixed assets	42,470	(23,586)
Auditors' remuneration - audit services	50,000	35,000
- non audit services	464,581	-
Exceptional items: Release of provision on gas contracts	(12,392,691)	(8,624,678)
Depreciation	1,485,834	714,891
	<u>1,485,834</u>	<u>714,891</u>

5. DIRECTORS' EMOLUMENTS

	1997	1996
	£	£
Emoluments	154,806	147,918
Company contributions paid to a defined benefit pension scheme	<u>9,839</u>	<u>7,564</u>
	<u>154,806</u>	<u>147,918</u>
	1997	1996
	No	No
Members of defined benefit pension schemes	<u>1</u>	<u>1</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

6. EMPLOYEE COSTS

	1997	1996
	£	£
Wages and salaries	4,416,357	3,081,570
Social security costs	341,348	247,591
Other pension costs	177,193	130,772
	<u>4,934,898</u>	<u>3,459,933</u>

The average number of employees during the year was 184 (1996 - 125)

	1997	1996
	No.	No.
Management	8	6
Administration	130	87
Sales and marketing	46	32
	<u>184</u>	<u>125</u>

7. INTEREST RECEIVABLE

	1997	1996
	£	£
Bank interest	166,965	74,090
Interest receivable from group undertakings	1,183,209	356,704
	<u>1,350,174</u>	<u>430,794</u>

8. INTEREST PAYABLE

	1997	1996
	£	£
Bank loans and overdrafts	-	-
Interest payable to group undertakings	2,084,548	1,462,046
	<u>2,084,548</u>	<u>1,462,046</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

9. TAXATION

	1997	1996
	£	£
Adjustment relating to prior years	-	(279,690)
	<u>-</u>	<u>(279,690)</u>

10. FIXED ASSETS

	<i>Short leasehold property</i> £	<i>Office equipment</i> £	<i>Computer equipment</i> £	<i>Vehicles</i> £	<i>Total</i> £
Cost:					
At 1 January 1997	343,183	1,173,181	2,252,659	373,509	4,142,532
Additions	122,545	308,909	562,773	257,553	1,251,780
Disposals	-	(165,634)	(458,467)	(126,314)	(750,415)
At 31 December 1997	<u>465,728</u>	<u>1,316,456</u>	<u>2,356,965</u>	<u>504,748</u>	<u>4,643,897</u>
Depreciation:					
At 1 January 1997	123,857	353,454	582,850	142,639	1,202,801
Charge for the year	68,937	405,543	908,558	102,796	1,485,834
Disposals	-	(165,105)	(410,747)	(83,556)	(659,408)
At 31 December 1997	<u>192,795</u>	<u>593,892</u>	<u>1,080,661</u>	<u>161,879</u>	<u>2,029,227</u>
Net book value:					
At 31 December 1997	<u>272,933</u>	<u>722,564</u>	<u>1,276,304</u>	<u>342,869</u>	<u>2,614,670</u>
At 31 December 1996	<u>219,326</u>	<u>819,178</u>	<u>1,670,360</u>	<u>230,866</u>	<u>2,939,730</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

11. INVESTMENTS

	<i>Subsidiary undertaking</i> £	<i>Associated undertaking</i> £	<i>Total</i> £
Cost:			
At 1 January 1997	2	250	252
Additions	-	93,200	93,200
At 31 December 1997	<u>2</u>	<u>93,450</u>	<u>93,452</u>

At 31st December 1997, the company owned the entire issued share capital of AGAS Developments Limited a gas distribution company. On 2nd January 1997 the company purchased an additional 187 shares in Gas Technology Limited, bringing its total interest to 43.7%. Gas Technology Limited provides engineering consultancy services. Both companies are registered in England and Wales.

On 30th January 1998, the company transferred its holding of the entire issued share capital of AGAS Developments Limited and its interest in the ordinary share capital of Gas Technology Limited to its parent company Elf Aquitaine Gas UK Limited.

12. DEBTORS

	<i>1997</i> £	<i>1996</i> £
Trade debtors	6,506,019	31,062,445
Owed by parent undertaking	450,797	-
Owed by subsidiary undertaking	23,061,829	8,348,246
Owed by associate undertaking	6,000	6,000
Corporation tax recoverable	-	1,167,285
VAT	738,404	2,628,647
Prepayments and accrued income	47,962,055	15,002,994
	<u>78,725,104</u>	<u>58,215,617</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

13. CREDITORS: amounts falling due within one year

	1997	1996
	£	£
Trade creditors	3,659,839	23,750,062
Other creditors	131,242	-
Accruals and deferred income	41,991,470	13,641,404
Loan from Elf Petroleum UK plc	90,444,288	58,444,289
Owed to parent company	239,405	1,852,380
	<u>136,466,244</u>	<u>97,688,135</u>

The loan from Elf Petroleum UK plc bears interest at LIBOR.

14. PROVISIONS FOR LIABILITIES AND CHARGES

	£
Balance brought forward at 1 January 1997	20,975,322
Release of provision for losses on gas contracts (see note 17(a))	(12,392,691)
Balance carried forward at 31 December 1997	<u>8,582,632</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

15. SHARE CAPITAL

	1997	1996
	£	£
Authorised:		
Ordinary shares of £1 each	2,000	2,000
Preference share £1	1	1
	<u>2,001</u>	<u>2,001</u>
Issued, called up and fully paid:		
Ordinary shares of £1 each	1,818	1,818
Preference share £1	1	1
	<u>1,819</u>	<u>1,819</u>

16. RECONCILIATION OF SHAREHOLDERS' FUNDS AND MOVEMENTS ON RESERVES

	Share capital £	Profit and loss account £	Total £
At 1 January 1996	1,819	(36,674,833)	(36,673,014)
Loss for the year	-	(20,346,195)	(20,346,195)
At 31 December 1996	<u>1819</u>	<u>(57,021,028)</u>	<u>(57,019,209)</u>
Loss for the year	-	(5,513,202)	(5,513,202)
At 31 December 1997	<u>1,819</u>	<u>(62,534,230)</u>	<u>(62,532,411)</u>

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS at 31 December 1997

17. FINANCIAL COMMITMENTS

(a) The company has previously entered into gas purchase agreements whereby the company is required to make future minimum purchases of gas at agreed prices. At the balance sheet date the company had such purchase commitments amounting to approximately £550 million which fall due in the period up to 2015. Of this commitment some £490 million relates to contracts with Elf Exploration UK plc.

During 1997, there have been further increases in the open market price of gas. At the year end the company had fixed price sales contracts on which the directors estimate that approximately £12.4m of the previously provided loss of £20.9m is no longer required. This has been adjusted for within the accounts. (See note 14). The directors consider that the uncertainty as to the level of gas prices beyond 1998 is so great that the possibility of losses arising beyond that date cannot be evaluated and accordingly, no estimate has been made.

The company is reviewing the position with suppliers to mitigate these potential losses.

(b) Annual commitments under operating leases are as follows:

	1997	1996
	£	£
Short leasehold property		
Leases expiry:		
Within one year	506,000	493,000
Within two to five years	2,024,000	1,870,000
Thereafter	2,210,000	2,210,000
	<u>4,741,000</u>	<u>4,573,000</u>

18. RELATED PARTIES

The company has taken advantage of the exemption in paragraph 3(c) of FRS8 from disclosing transactions with related parties that are part of the Elf Group.

Associated Gas Supplies Limited

NOTES TO THE ACCOUNTS

at 31 December 1997

19. PENSION COMMITMENTS

As mentioned in note 2, the company operates a defined benefit pension scheme, which requires contributions to be made to a separately administered fund. The pension costs are determined with the help of independent qualified actuaries using the projected unit cost method.

In January 1998, the actuaries to the new AGAS Pension scheme completed their actuarial valuation of the scheme as at 1st September 1996, the date at which the schemes assets were transferred from the Energy and Technical Services scheme to the new AGAS scheme. The results were as follows :-

Main assumptions :

Rate of return on investments (% per annum)	8.4
Rate of salary increases (% per annum)	7.0
Rate of pension increases (% per annum)	4.0
Market value of scheme assets (£'000s)	413.6
Level of funding being the actuarial value of assets expressed as a percentage of the benefits accrued to members, after allowing for future salary increases	69%

Since the schemes inception date, the company has paid contributions at a rate of 9.6% of Pensionable Earnings, 2.3% of Pensionable Earnings greater than the normal company contribution rate. The maintenance of this contribution rate would be expected to remove the past service deficit over a period of 5 years 4 months. Up to the date of the actuarial valuation 21st January 1998 the additional contributions being paid would have removed approximately £40,000 of the deficit and the funding level improved to approximately 75%..

20. ULTIMATE PARENT COMPANY

The company's ultimate parent undertaking is Elf Aquitaine, a company registered in France. This is the largest group for which group accounts are prepared. One of the companies intermediate parent undertakings is Elf Petroleum UK plc, a company registered in England. This is the smallest group for which group accounts are prepared.

Copies of the accounts of Elf Aquitaine can be obtained from Tour Elf, 2 Place de la Coupole, La Defense, Paris, France and copies of the accounts of Elf Petroleum UK PLC can be obtained from 30 Buckingham Gate, London, SW1E 6NN.