

# **ACCORD ENERGY LIMITED**

**Annual Report**

**for the year ended**

**31 December 1998**



**Registered No: 2877398**

# **ACCORD ENERGY LIMITED**

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# **ACCORD ENERGY LIMITED**

## **Directors' Report for the year ended 31 December 1998**

The Directors present their report and audited financial statements for the year ended 31 December 1998.

### **Principal activities and review of business**

The principal activity of the Company in the year was the wholesale trading of energy products, comprising natural gas and crude oil, and the trading of energy related derivative products. There was no trading of electricity carried out in the year but the Company has been actively involved in participating in the various initiatives on electricity trading reform. The Company considers trading in electricity a key element of its energy trading product portfolio and will continue to seek and pursue opportunities in this area.

The major energy product traded in the year was natural gas and the gas trading activity mainly covered trades within the United Kingdom. Total physical volumes of natural gas traded in the year increased by 36% over the corresponding annual volume in 1997 and the year also saw the Company increasing its volumes traded on the IPE gas futures market. The growth in the trading of energy related derivative products was a major feature in the year with the Company actively involved in developing trading in such products.

During the latter part of the year the Company successfully concluded a number of trading agreements with European companies and thereby extended its sphere of natural gas trading into mainland Europe.

### **Financial results and dividends**

The financial results are set out on pages 7 to 17. Interim dividends totalling £ 13.4 million for the year to 31 December 1998 were approved by the Board and paid during the year on the participating preference shares. No dividends were paid on the ordinary shares

The retained profits in the year have been transferred to reserves.

### **Directors**

The present Directors of the Company are listed below. All served as Directors throughout the year.

Roy Gardner ( Chairman )  
Mark Clare

### **Directors' interests**

At no time during the year did any of the Directors still holding office on 31 December 1998 have any beneficial interest in the shares of the Company or any other company within the Group except for the interests in the shares of the ultimate parent company, Centrica plc.

Messrs Gardner and Clare are also Directors of the ultimate parent company, Centrica plc. Their interests in the shares of Centrica plc and its subsidiary undertakings are shown in the 1998 Annual Report of that company.

All options and awards granted under the terms of the parent company's Savings Related Share Option Scheme, Executive Share Option Scheme or Long Term Incentive Scheme, are given in the Centrica plc's Annual Report for the year ended 31 December 1998.

### **Directors' insurance**

The Company has through its ultimate parent company, Centrica plc, maintained insurance for the Directors in respect of their duties as Directors of the Company.

### **Policy on the payment of creditors**

The Company aims to pay all of its creditors promptly. Payments relating to the purchase of energy products and other direct expenditure associated with energy trading are governed by contractual terms. All other creditors are paid in accordance with contractual and legal obligations.

### **Donations**

Provision has been made in the accounts for a net contribution of £ 100,000 (1997 - £ 115,000) for charitable purposes, which will be paid in 1999. No donations to political organisations were provided for or made during the period.

### **Employees**

The Company depends on the skills and commitment of its employees in order to achieve its long term objectives and is therefore committed to the development of its staff. Employees at all levels are encouraged to actively participate and make the fullest contribution to the growth and success of the Company. The Company's recruitment, training and promotion policies, which are based on merit, have been developed to ensure equal opportunities for all employees regardless of gender, race or disability.

## **Year 2000 and the Euro**

Plans to deal with the risks associated with Year 2000 business readiness have been incorporated within Centrica plc's programme for its group of companies and are being implemented under that programme. The costs, which are not considered to be material, are being borne by Centrica plc and are included in the financial statements of that company.

As a part of the overall Centrica plc group initiative, work has commenced on identifying the systems changes that will be required in the event that a decision is made in favour of UK adoption of the euro.

## **Auditors**

Price Waterhouse and Coopers & Lybrand merged during the year to form a new firm 'PricewaterhouseCoopers'. PricewaterhouseCoopers were appointed as auditors to the Company with effect from 21 July 1998.

The Company has passed an elective resolution to dispense with the need to hold Annual General Meetings and the laying of accounts before them and with the need to re-appoint Auditors annually.

## **By Order of the Board**



**Lucy Caldwell**  
**Company Secretary**

**Date : 28 June 99**

Registered Office:

Charter Court  
50 Windsor Road  
Slough  
Berkshire SL1 2HA

Registered in England  
No 2877398

## **Statement of Directors' Responsibilities**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company as at the end of the financial year and of the profit or loss for that period.

The Directors consider that in preparing the financial statements, appropriate accounting policies have been used and applied consistently. The Directors also consider that reasonable and prudent judgements and estimates have been made and applicable accounting standards have been followed.

The Directors are required to prepare financial statements on a going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors have responsibility for ensuring that the company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985

The Directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and for preventing and detecting fraud and other irregularities.

## **Auditors' report to the members of Accord Energy Limited**

We have audited the financial statements on pages 7 to 17 which have been prepared under the historical cost convention and the accounting policies described on pages 9 and 10.

### **Respective responsibilities of Directors and Auditors**

The Directors are responsible for preparing the Annual Report, including as described on page 4 the financial statements. Our responsibilities, as independent auditors, are established by statute, the Auditing Practices Board 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 in accordance with the 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 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.

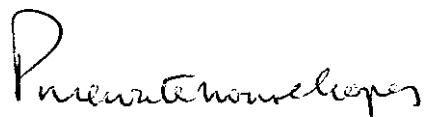
### **Basis of Opinion**

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 financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs as at 31 December 1998 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

A handwritten signature in cursive script, appearing to read 'PricewaterhouseCoopers', written in dark ink.

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

Date: 28 June 1999.



# Accord Energy Limited

## Profit and loss account for the year ended 31 December 1998

		Year ended 31 Dec 1998	Year ended 31 Dec 1997
	Notes	£ 000	£ 000
Turnover	2	680,222	632,921
Cost of sales		(643,758)	(597,669)
<b>Gross profit</b>		<b>36,464</b>	<b>35,252</b>
Administrative expenses		(3,955)	(4,271)
<b>Operating profit</b>	3	<b>32,509</b>	<b>30,981</b>
Net interest	5	2,380	537
<b>Profit on ordinary activities before taxation</b>		<b>34,889</b>	<b>31,518</b>
Tax on profit on ordinary activities	6	(2,024)	(2,856)
<b>Profit for the financial year</b>		<b>32,865</b>	<b>28,662</b>
Dividends (including non-equity)	7	(13,400)	(8,411)
<b>Retained profit transferred to reserves</b>	16	<b>19,465</b>	<b>20,251</b>

All gains or losses for the year have been derived from continuing operations.

There are no recognised gains or losses for the period (1997 - Nil) other than those stated in the profit and loss account.

The accompanying notes on pages 9 to 17 form part of these financial statements.

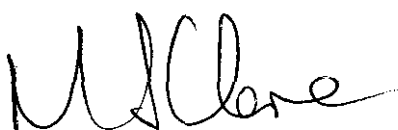
# Accord Energy Limited

## Balance Sheet as at 31 December 1998

	Notes	1998 £ 000	1997 £ 000
<b>Fixed assets</b>			
Tangible fixed assets	8	255	319
Investments	9	-	-
		<hr/> 255	<hr/> 319
<b>Current assets</b>			
Stock	10	466	1,361
Debtors (amounts falling due within one year)	11	110,629	92,661
Cash at bank and in hand		20,118	113
		<hr/> 131,213	<hr/> 94,135
<b>Creditors (amounts falling due within one year)</b>	12	<b>(70,297)</b>	<b>(73,166)</b>
		<hr/> 60,916	<hr/> 20,969
<b>Net current assets</b>			
		<hr/> 61,171	<hr/> 21,288
<b>Total assets less current liabilities</b>			
<b>Creditors (amounts falling due after more than one year)</b>			
Creditors	12	(414)	(414)
Borrowings	13	(20,000)	-
		<hr/> (598)	<hr/> (180)
<b>Provisions for liabilities and charges</b>	14		
		<hr/> 40,159	<hr/> 20,694
<b>Net Assets</b>			
		<hr/> <hr/> 40,159	<hr/> <hr/> 20,694
<b>Capital and reserves</b>			
Called up share capital	15	-	-
Profit and loss account	16	40,159	20,694
		<hr/> 40,159	<hr/> 20,694
<b>Shareholders' funds - Equity and Non-Equity</b>	17	<b>40,159</b>	<b>20,694</b>
		<hr/> <hr/> 40,159	<hr/> <hr/> 20,694

The financial statements on pages 7 to 17 were approved by the Board of Directors on 28 June 99 and were signed on its behalf by:-

Mark Clare  
Director



The accompanying notes on pages 9 to 17 form part of these financial statements.

# Accord Energy Limited

## Notes to the financial statements

### 1. Principal accounting policies

The financial statements have been prepared under the historical cost convention and in accordance with applicable Accounting Standards.

#### Exemptions

As 90% of the Company's voting rights are controlled by Centrica plc (the ultimate parent company), the Company has taken advantage of the exemptions within :

- (a) Financial Reporting Standard No. 1 "Cash Flow Statements" from presenting a cash flow statement ;
- (b) Financial Reporting Standard No. 2 "Accounting for Subsidiary Undertakings" from consolidating its subsidiary undertakings ; and,
- (c) Financial Reporting Standard No. 8 "Related Party Disclosures" from disclosure of transactions with other group companies

#### Tangible fixed assets

Tangible fixed assets are stated at purchase cost together with any incidental costs of acquisition less depreciation.

Depreciation, which is charged in the year following the year of acquisition, is calculated on a straight-line basis sufficient to write off the cost of individual assets, less estimated residual value, over their estimated useful lives. The depreciation periods for the principal categories of assets are :

Fixtures and fittings	:	5 years
Computer and office equipment	:	5 years

#### Investments

Investments are stated at cost less any provisions for impairment.

#### Stock

Stocks are valued at the lower of cost and net realisable value.

#### Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Income and expenses in foreign currencies are translated into pounds sterling at rates of exchange prevailing at the time of the transactions.

## **Turnover**

Turnover, which excludes value added tax, represents the invoiced value of sales of energy products including gas, oil and electricity to customers plus an estimate of sales not yet invoiced.

## **Forward commitments**

There is an exposure to price movements on open contracts and an accrual is made for any anticipated future losses on these contracts. Gains on open contracts are recognised at time of delivery.

## **Deferred taxation**

Provision is made for deferred taxation on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

## **Pensions**

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from the 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 Incentive Scheme (LTIS)**

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

## **2. Turnover**

Turnover of £ 680.2 million (1997 - £ 632.9 million ) comprises sales of energy products within the United Kingdom.

## **3. Operating profit**

The operating profit is stated after charging:-

	<b>1998</b>	<b>1997</b>
	<b>£ 000</b>	<b>£ 000</b>
Auditor's fees (statutory audit)	<b>24</b>	<b>25</b>
Auditor's fees (other non-audit services)	<b>-</b>	<b>5</b>
Depreciation	<b>77</b>	<b>45</b>

#### 4. Directors and employees

##### (a) Directors' remuneration

None of the Directors, including the Chairman, received any remuneration in respect of their services to the Company during the year.

The two Directors, Messrs Gardner and Clare, are also Directors of the ultimate parent company and retirement benefits accrue to them under the group's defined benefit scheme.

##### (b) Employee information

The average number of personnel employed by the Company, including executive directors and secondees from the shareholder companies, during the period was 20 ( 1997 - 20 ) who were all based in the United Kingdom. Staff costs for these employees were as follows:-

	1998 £ 000	1997 £ 000
Wages and salaries	1,420	1,160
Social security costs	222	149
Other pension costs	61	88
Long Term Incentive Scheme	345	180
	<hr/>	<hr/>
	2,048	1,577
	<hr/>	<hr/>

In addition, accruals amounting to £ 0.8 million (1997 - £ 2.4 million) which includes social security costs of £ 0.1million (1997 - £ 0.2 million ) were made in the year for incentive payments relating to company performance.

#### 5. Net interest

	1998 £ 000	1997 £ 000
Interest receivable from Group undertakings	2,505	570
Interest receivable from third parties	16	63
Interest payable to Group undertakings	-	(7)
Interest payable to third parties	(141)	(89)
	<hr/>	<hr/>
Net interest receivable	2,380	537
	<hr/>	<hr/>

Interest payable is on loans and advances under trading arrangements.

## 6. Taxation

	1998 £ 000	1997 £ 000
UK - corporation tax @ 31 % (1997 - 31.5%)	-	2,856
- irrecoverable ACT	2,017	-
- prior year adjustment	7	-
	<hr/>	<hr/>
Taxation charge	2,024	2,856
	<hr/>	<hr/>

There is no unprovided liability for deferred taxation.

The 1998 corporation tax charge has been reduced to nil by estimates of group relief to be surrendered by other group companies for no consideration.

## 7. Dividends

	1998 £ 000	1997 £000
<b><u>Ordinary Shares</u></b>		
1997 Interim dividend	-	2,566
1996 Second Interim dividend no longer to be paid	-	(7,555)
<b><u>Participating Preference Shares</u></b>		
Interim Dividend	5,300	5,075
Second Interim Dividend	8,100	8,325
	<hr/>	<hr/>
	13,400	8,411
	<hr/>	<hr/>

No dividends were declared on the Ordinary Shares during the year (1997 - £ 2.6 million). Interim dividends on the Participating Preference Shares amounting to £ 13.4 million (1997 - £ 13.4 million) were paid in July and December 1998. No final dividends are proposed.

## 8. Tangible fixed assets

	1998 £ 000
<b><u>Cost</u></b>	
Balance at 1 January 1998	386
Additions	13
	<hr/>
Balance at 31 December 1998	399
	<hr/>
<b><u>Depreciation</u></b>	
Balance at 1 January 1998	67
Charge for the year	77
	<hr/>
Balance at 31 December 1998	144
	<hr/>
<b><u>Net book value</u></b>	
As at 31 December 1998	255
	<hr/>
As at 31 December 1997	319
	<hr/>

The tangible fixed assets comprise fixtures, fittings and computer and office equipment.

## 9. Fixed asset investments

Fixed asset investments represent shares in wholly owned subsidiary undertakings and are shown below at cost.

	1998 £	1997 £
Balance at 1 January and 31 December 1998	5	5
	<hr/>	<hr/>

## Subsidiary undertakings

	Country of registration or incorporation	Class of shares held	Company holding (%)
Accord Electric Limited	England	Ordinary	100
Accord Gas Limited	England	Ordinary	100
Accord Oil Limited	England	Ordinary	100
Accord Power Limited	England	Ordinary	100

As at 31 December 1998 these subsidiary undertakings were dormant.

## 10. Stock

	1998 £ 000	1997 £ 000
Gas in storage	466	1,361

## 11. Debtors

	1998 £ 000	1997 £000
Trade debtors and accrued income	60,285	62,637
Amounts owed by group undertakings	41,931	25,946
Taxation	5,326	3,992
Other debtors	3,087	86
	<hr/> 110,629	<hr/> 92,661



## 12. Creditors

	1998 £ 000	1997 £ 000
<b>Amounts falling due within one year:-</b>		
- Trade creditors	51,358	45,419
- Amounts owed to group undertakings	4,990	170
- Taxation and social security	2,261	3,382
- Other creditors	1,552	374
- Accruals and deferred income	10,136	23,821
	<hr/> 70,297	<hr/> 73,166
<b>Amounts falling due after more than one year:-</b>		
- Amounts owed to subsidiary undertakings	414	414
	<hr/> 414	<hr/> 414

As part of its normal trading operations the company has entered into forward purchase and sales contracts totalling £ 1,224 million at 31 December 1998 ( 1997 - £ 770 million). It is exposed to market risk of price movements in relation to any unmatched element of the above commitments and included in the accruals amounts shown above is an accrual of £ 4.0 million ( 1997 - £ 4.7 million ) against anticipated future losses arising out of these contracts.

## 13. Borrowings

	1998 £000	1997 £ 000
<b>Amounts falling due after more than one year :-</b>		
- Amounts owed to group undertakings	20,000	-
	<hr/> 20,000	<hr/> -

The above loan is non interest bearing and repayable on or before 30 December 2004.

## 14. Provisions for liabilities and charges

	As at 1 Jan. 1998 £ 000	Profit and loss charge £ 000	As at 31 Dec. 1998 £ 000
Provisions	180	418	598
	<hr/> 180	<hr/> 418	<hr/> 598

The provisions cover reimbursements to Centrica plc for shares provided to qualifying employees under the parent company's (a) long term incentive scheme and (b) the employee profit share scheme. It also includes provisions for pension costs.

## 15. Called up share capital

Authorised share capital	1998	1997
	£	£
51 Ordinary Shares of £ 1 each	51	51
196 Participating Preference Shares of £ 1 each	196	196
999,753 Unclassified Shares of £ 1 each	999,753	999,753
	<hr/>	<hr/>
	1,000,000	1,000,000
	<hr/>	<hr/>
 Allotted and fully paid	 1998	 1997
	£	£
51 Ordinary Shares of £ 1 each	51	51
196 Participating Preference Shares of £ 1 each	196	196
	<hr/>	<hr/>
	247	247
	<hr/>	<hr/>

90 % of the voting rights are controlled by the ultimate parent company which owns 100% of the Ordinary Shares and 75% of the Participating Preference shares. The rights of the Participating Preference Shares are as follows:

- (a) Out of profits resolved to be distributed, entitlement to specific amounts of cumulative preference dividends in priority to any payment of dividend to the holders of any other class of shares.
- (b) On a return of capital or winding up, entitlement in priority to any payment to the holders of any other class of shares a sum equal to the nominal capital paid up plus arrears of dividends up to the date of the winding up or the date of the return of capital.
- (c) Shares in issue shall carry, in aggregate, 40% of the voting rights at the General Meeting with each holder entitled to exercise a number of votes proportional to the number of shares held against the total number of shares in issue.

## 16. Reserves

	£ 000
<b>Profit and loss account:</b>	
Balance at 1 January 1998	20,694
Transfer from profit and loss account during the year	19,465
	<hr/>
Balance at 31 December 1998	40,159
	<hr/>

## 17. Reconciliation of movements in shareholders' funds

	1998 £ 000	1997 £ 000
Profit for the financial year	32,865	28,662
Net Dividends (see note 7)	(13,400)	(8,411)
Net addition to shareholders' funds	19,465	20,251
Opening shareholders' funds at 1 January	20,694	443
Closing shareholders' funds at 31 December	40,159	20,694

The non-equity element of shareholders' funds at 31 December 1998 was £ 196 ( 1997 - £ 196).

## 18. Pensions

Substantially all of the Company's employees as at 31 December 1998 were members of the Centrica Staff Pension Scheme. This scheme is funded to cover future pension liabilities in respect of service up to the balance sheet date. It is 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 benefits payable under the scheme.

The Company's employees participated in British Gas schemes from May 1997 until 31 March 1998. Prior to May 1997 the company operated its own defined contribution pension scheme. From 1 April 1998 the Company's employees joined the Centrica Staff Pension Scheme. This new defined benefit scheme provides identical benefits to the British Gas scheme as at 31 March 1998. A share of the British Gas scheme assets was transferred during the year to the new Centrica scheme, proportional to the share of the total accrued British Gas schemes' liabilities as at 31 March 1998 that were attributable to Centrica employees, or former employees electing to transfer.

The long term assumptions applied to calculate Centrica pension costs are set out in the 1998 Annual Report of Centrica plc.

The contributions made by the company for the year to December 1998 amounted to £ 61,311 (1997-£ 88,703).

## 19. Ultimate parent company

The Directors regard Centrica plc, a company registered in England, as the ultimate parent company as at 31 December 1998 and Centrica plc is the only company to consolidate the accounts of the Company. Copies of the Annual Report of Centrica plc may be obtained from The Company Secretary, Centrica plc, Charter Court, 50 Windsor Road, Slough, Berkshire SL1 2HA.

The immediate parent company is GB Gas Holdings Limited, a wholly owned subsidiary undertaking of Centrica plc.