

BEACON GAS LIMITED

REPORT AND ACCOUNTS 31 DECEMBER 1998

Registered Office:

Forest Gate
Brighton Road
Crawley
West Sussex
RH11 9BH

Registered Number : 3042795



BEACON GAS LIMITED

Directors' Report

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

Principal Activity and Future Prospects

The principal activity of the Company is the supply of gas to domestic customers within the United Kingdom.

Trading Results and Dividends

The loss for the financial year to 31 December 1998 was £11,535,000 (1997 £7,610,000). After excluding costs associated with customer acquisition and registration, the loss for 1998 was £3,002,000 (1997 £894,000).

It is proposed that no dividend is paid.

Important Event Occurring after the Year End

On the 30 June 1999, SEEBOARD Natural Gas Limited acquired Amoco U.K. Gas Ventures Limited's holding in Beacon Gas Limited and thereby owns 100% of the ordinary share capital of the Company. At the same date, £11,553,779 of the shareholder loan payable to Amoco U.K. Gas Ventures Limited was waived and the remaining balance outstanding at that date was repaid through a loan from SEEBOARD Natural Gas Limited.

Parent Company Support

SEEBOARD Natural Gas Limited has confirmed that it will continue to provide financial and other support to the extent necessary to enable Beacon Gas Limited to continue to trade and meet its liabilities as and when they fall due.

Directors

The directors who served during the year to 31 December 1998, none of whom held any interest in the ordinary share capital of the Company, were as follows:

J Weight (Chairman - appointed 28 January 1998)
M J Ambrose (resigned 21 January 1999)
M J Pavia
R Johnston (resigned 24 November 1998)
R A Danes (resigned 28 January 1998)
R Marks (appointed 24 November 1998, resigned 21 January 1999)

New appointments in 1999:

A Quinn (appointed 21 January 1999, resigned 30 June 1999)
P Mather (appointed 21 January 1999, resigned 30 June 1999)

Year 2000 Compliance

Beacon Gas Limited has undertaken a comprehensive review of all items that may be affected by the millenium date change and has prioritised the testing and resolution of those items that may impact health, safety and customer systems. This process recognises that the operation of Beacon Gas Limited goes beyond its own systems and is reliant upon those operated by its suppliers and customers. There is, therefore, an exposure to further risks in the event that there is a failure by other parties to remedy their own Year 2000 issues.

Auditor

KPMG Audit plc is willing to continue as auditor and a resolution proposing its re-appointment will be presented at the forthcoming Annual General Meeting.

The report of the directors was approved by the Board on 23 July 1999 and signed on its behalf by:



M NAGLE

Company Secretary

BEACON GAS LIMITED

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements 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 for that period. In preparing those financial statements, 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 financial statements;
- ♦ prepare the financial statements 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 which enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE MEMBERS OF BEACON GAS LIMITED

We have audited the financial statements on pages 3 to 12.

Respective responsibilities of directors and auditor

As described above the Company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements 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 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 as at 31 December 1998 and of the loss of the Company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

KPMG Audit Plc

KPMG Audit Plc

Chartered Accountants

Registered Auditor

London

30 July 1999

BEACON GAS LIMITED

Profit and Loss Account for the year ended 31 December 1998

	<i>Note</i>	1998 £000	1997 £000
Turnover		30,222	9,824
Cost of sales		<u>(37,199)</u>	<u>(10,068)</u>
Gross loss		(6,977)	(244)
Distribution costs	1	(3,280)	(6,716)
Administrative expenses		<u>(2,121)</u>	<u>(1,768)</u>
Operating loss	2	(12,378)	(8,728)
Net interest	5	(602)	(128)
Loss on ordinary activities before taxation		<u>(12,980)</u>	<u>(8,856)</u>
Tax on loss on ordinary activities	6	1,445	1,246
Loss for the financial year		<u>(11,535)</u>	<u>(7,610)</u>

A statement of movements on the profit and loss account is given in note 12.

Recognised gains or losses

There were no recognised gains or losses other than the loss for the financial year.

The loss for the financial year arises from continuing operations.

BEACON GAS LIMITED

Balance Sheet as at 31 December 1998

	Note	1998 £000	1997 £000
Fixed assets	7	<u>1,804</u>	<u>723</u>
Current assets			
Stocks	8	985	534
Debtors (amounts falling due within one year)	9	<u>9,695</u>	<u>4,881</u>
Debtors (amounts falling due after more than one year)	9	<u>2,224</u>	<u>-</u>
		11,919	4,881
Cash at bank and in hand		<u>2,673</u>	<u>660</u>
		<u>15,577</u>	<u>6,075</u>
Current liabilities			
Creditors (amounts falling due within one year)	10	33,178	11,060
Net current liabilities		<u>(17,601)</u>	<u>(4,985)</u>
Total assets less current liabilities		<u>(15,797)</u>	<u>(4,262)</u>
Creditors (amounts falling due after more than one year)	10	10	10
Net liabilities		<u>(15,807)</u>	<u>(4,272)</u>
Capital and reserves			
Called up share capital	11	6,010	6,010
Profit and loss account	12	<u>(21,817)</u>	<u>(10,282)</u>
Shareholders' funds		<u>(15,807)</u>	<u>(4,272)</u>

The financial statements on pages 3 to 12 were approved by the Board of Directors on 23 July 1999 and were signed on its behalf by:

John Weight

John Weight
Chairman

Michael J Pavia

Michael J Pavia
Director

BEACON GAS LIMITED

Cash Flow Statement for the year ended 31 December 1998

	<i>Note</i>	1998 £000	1997 £000
Net cash outflow from operating activities	15(a)	(5,201)	(8,872)
Returns on investments and servicing of finance	15(b)	133	91
Taxation		1,246	495
Capital expenditure	15(c)	(165)	(199)
Cash outflow before use of liquid resources and financing		(3,987)	(8,485)
Financing			
Drawdown of debt	15(d)	6,000	5,900
Increase/(decrease) in cash in the year		2,013	(2,585)

BEACON GAS LIMITED

Notes to the accounts

Accounting Policies

Basis of preparation

The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 1985 and applicable accounting standards.

Parent company support

SEEBOARD Natural Gas Limited has confirmed that it will continue to provide financial and other support to the extent necessary to enable Beacon Gas Limited to continue to trade and meet its liabilities as and when they fall due.

Going concern

These financial statements have been prepared on a going concern basis on the assumption that the Company will continue in operational existence for the foreseeable future. In the event that this basis is not appropriate, then adjustments may have to be made to the value of assets to reflect their recoverable amount and to provide for any further liabilities arising.

Turnover

Turnover represents the value of gas supplied during the year and the invoice value of other goods and services provided, exclusive of value added tax.

Tangible fixed assets and depreciation

Tangible fixed assets are stated at cost less accumulated depreciation. The charge for depreciation is calculated on a straight line basis to write off fixtures, fittings and computer equipment over their estimated useful lives as follows :

Leasehold improvements and related fixtures	Over the remaining period of the office lease
Fixtures and fittings	Up to 10 years
Computer equipment	Up to 10 years

Deferred taxation

Deferred taxation arises in respect of items where there is a timing difference between their treatment for accounting purposes and their treatment for taxation purposes. A provision or asset for deferred taxation, using the liability method, is established to the extent that it is probable that a liability or asset will crystallise in the foreseeable future.

Marketing costs

Marketing costs which relate to specific campaigns are charged to the profit and loss account during the period in which the related income is expected to commence.

Operating leases

The rental charges from operating leases are charged to the profit and loss account on a straight line basis over the life of the lease.

Customer set-up costs

Customer set up costs are included in prepayments and deferred expenditure and charged to the profit and loss account over 4 years following the month costs are incurred.

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Notes to the accounts (continued)

1. Distribution costs

Comprised of marketing expenditure. 1997 has been restated as marketing costs were previously included in administrative expenses.

2. Operating loss

Operating loss is stated after charging:

	1998 £000	1997 £000
Depreciation	881	192
Auditor's remuneration	30	20
Operating lease charges	126	126

3. Directors and employees

	1998 Number	1997 Number
a) The average number of people employed during the year by the Company was:	18	15

	1998 £000	1997 £000
b) Employment costs		
Wages and salaries	728	534
Social security costs	61	57
Pension contributions	59	41
Charged to profit and loss account	848	632

c) Directors' emoluments

The directors of the Company did not receive any emoluments in respect of their services to Beacon Gas Limited.

4. Related party transactions

During 1998, Beacon Gas Limited was a 50:50 joint venture between Amoco U.K. Gas Ventures Limited and SEEBOARD Natural Gas Limited. The following classes of transactions with joint venture partners occurred during the period:

	1998 £000	1997 £000
Purchase of gas	10,950	3,326
Services	4,184	2,385
Transfer of customer service costs	11,590	-
Sale of tax losses	(1,445)	(1,246)
Management charges	133	78

The balance due to related parties outstanding at the year end was £29,826,000 (1997 £8,530,000)

The balance due from related parties outstanding at the year end was £2,048,000 (1997 £1,630,000)

BEACON GAS LIMITED

Notes to the accounts (continued)

5. Net interest

	1998 £000	1997 £000
Bank interest receivable	181	91
Interest payable on loans from parent companies	(783)	(219)
	<u>(602)</u>	<u>(128)</u>

6. Tax on loss on ordinary activities

The Company surrendered £5,178,000 (1997 £4,395,000) of tax losses to a consortium member for the year ended 31 December 1998 for consideration of £1,445,000 (1997 £1,246,000). Accumulated tax losses of £11,193,000 (1997 £6,015,000) were carried forward.

7. Tangible fixed assets

	Fixtures and Fittings £000	Computer equip- ment £000	Leasehold improv- ement £000	Total £000
Cost				
At 1 January 1998	121	573	221	915
Additions	117	2,432	-	2,549
Disposals	(117)	(745)	-	(862)
As at 31 December 1998	<u>121</u>	<u>2,260</u>	<u>221</u>	<u>2,602</u>
Depreciation				
At 1 January 1998	10	162	20	192
Charge for the year	51	806	24	881
Disposals	(36)	(239)	-	(275)
As at 31 December 1998	<u>25</u>	<u>729</u>	<u>44</u>	<u>798</u>
Net book amount at 31 December 1998	<u>96</u>	<u>1,531</u>	<u>177</u>	<u>1,804</u>
Net book amount at 31 December 1997	<u>111</u>	<u>411</u>	<u>201</u>	<u>723</u>

8. Stock

	1998 £000	1997 £000
Consumables	-	4
Gas stocks	985	530
	<u>985</u>	<u>534</u>

9. Debtors

	1998 £000	1997 £000
Amounts falling due within one year:		
Trade debtors	5,411	1,434
Other debtors	1,122	1,029
Amounts due from related parties	2,048	1,630
Prepayments and deferred expenditure	1,114	788
	<u>9,695</u>	<u>4,881</u>
Amounts falling due after more than one year:		
Prepayments and deferred expenditure	<u>2,224</u>	<u>-</u>

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Notes to the accounts (continued)

10. Creditors	1998	1997
	£000	£000
Amounts falling due within one year:		
Trade creditors	511	966
Short term debt with related parties	11,900	5,900
Other amounts owed to related parties	17,916	2,620
Other creditors	-	97
Accruals and deferred income	2,851	1,477
	<u>33,178</u>	<u>11,060</u>
Amounts falling due after more than one year:		
Amounts owed to related parties	10	10
	<u>10</u>	<u>10</u>

The amount owed to related parties, repayable after more than one year, is a loan of £10,000 repayable to SEEBOARD Natural Gas Limited. Interest is charged on the loan at a fixed rate of 6% per annum.

On the 30 June 1999, SEEBOARD Natural Gas Limited acquired Amoco U.K. Gas Ventures Limited's holding in Beacon Gas Limited and thereby owns 100% of the ordinary share capital of the company. At the same date, £11,553,779 of the shareholder loan payable to Amoco U.K. Ventures Limited was waived and the remaining balance outstanding at that date was repaid through a loan from SEEBOARD Natural Gas Limited.

11. Called up share capital	1998	1997
	£000	£000
Authorised, allotted and fully paid:		
6,000,000 ordinary shares at £1 each	6,000	6,000
10,000 6% cumulative non voting preference shares at £1 each	10	10
	<u>6,010</u>	<u>6,010</u>

12. Reconciliation of movements in shareholders' funds

	Share capital	Profit and loss account	Shareholders' funds
	£000	£000	£000
Balance at 1 January 1998	6,010	(10,282)	(4,272)
Loss for the year	-	(11,535)	(11,535)
Balance at 31 December 1998	<u>6,010</u>	<u>(21,817)</u>	<u>(15,807)</u>

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Notes to the accounts (continued)

13. Lease commitments under operating leases:

a) Land and buildings	1998	1997
	£000	£000

Expiring:

After five years	120	120
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The lease commitment relates to property leased from SEEBOARD plc.

b) Equipment	1998	1997
	£000	£000

Expiring:

Within one year	3	-
In the second to fifth year inclusive	-	6

14. Capital and other commitments

Beacon Gas Limited has entered into a contract for the provision of customer services with SEEBOARD plc, an affiliate of SEEBOARD Natural Gas Limited. The 1998 figures reflect all costs incurred under this contract. The amount charged to the profit and loss account is £6,757,000. The remainder, which is in respect of fixed assets and customer set up costs, is included in the balance sheet and will be charged to the profit and loss account in accordance with Beacon Gas Limited accounting policies.

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Notes to the accounts (continued)

15. Notes to the Cash Flow Statement

	1998 £000	1997 £000
(a) Reconciliation of operating profit to operating cash flows		
Operating loss	(12,378)	(8,728)
Non cash item		
Depreciation	881	192
Movement in working capital		
Increase in stocks	(451)	(534)
Increase in debtors	(6,838)	(2,096)
Increase in creditors	13,585	2,294
	6,296	(336)
Net cash outflow from operating activities	(5,201)	(8,872)
(b) Returns on investments and servicing of finance		
Interest received	181	91
Interest paid	(48)	-
Net cash inflow from returns on investments and servicing of finance	133	91
(c) Capital expenditure		
Purchase of tangible fixed assets	(165)	(199)
Net cash outflow from capital expenditure	(165)	(199)

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Notes to the accounts (continued)

15. Notes to the cash flow statement continued

	1998	1997
(d) Financing	£000	£000
Debt repayable within one year	6,000	5,900
Net cash inflow from financing	6,000	5,900

(e) Analysis of net debt

	Balance 1 January 1998 £000	Cash Flow £000	Balance 31 December 1998 £000
Cash in hand and at bank	660	2,013	2,673
Short term debt with related parties	(5,900)	(6,000)	(11,900)
Long term debt with related parties	(10)	-	(10)
Net debt	(5,250)	(3,987)	(9,237)

(f) Reconciliation of net cash flow to movement in net debt

	1998 £000	1997 £000
Net debt at 1 January	(5,250)	3,235
Net debt at 31 December	(9,237)	(5,250)
Movement in net debt in the year	(3,987)	(8,485)
Issue of debt	6,000	5,900
Increase/(decrease) in cash in the year	2,013	(2,585)

16. Important event occurring after the year end

On the 30 June 1999, SEEBOARD Natural Gas Limited acquired Amoco U.K. Gas Ventures Limited's holding in Beacon Gas Limited and thereby owns 100% of the ordinary share capital of the company. At the same date, £11,553,779 of the shareholder loan payable to Amoco U.K. Ventures Limited was waived and the remaining balance outstanding at that date was repaid through a loan from SEEBOARD Natural Gas Limited.

Following this acquisition, the ultimate UK holding company is CSW UK Holdings and the ultimate holding company and ultimate controlling company is Central and South West Corporation, registered in Delaware, USA. Financial statements may be obtained from Central and South West Corporation, 1616 Woodall Rodgers Freeway, Dallas, Texas, 75266-0164 or from the Company Secretary at the Registered Office or by telephoning (01293) 657295.