

BRITISH GAS CONNECTIONS LIMITED
(FORMERLY YELDTOP LIMITED)

REPORT AND ACCOUNTS
FOR THE 17 MONTH PERIOD ENDED
31 DECEMBER 1997



REGISTERED IN ENGLAND NO: 3234745

BRITISH GAS CONNECTIONS LIMITED

(FORMERLY YIELDTOP LIMITED)

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DIRECTORS' REPORT

The Directors submit their first report and the audited accounts of British Gas Connections Limited (formerly Yieldtop Limited) for the 17 month period from 1st August 1996 to 31 December 1997.

The Company was incorporated on 1 August 1996 as Yieldtop Limited and issued two ordinary shares of £1 each.

On 1 August 1996 the Company's ordinary shares were acquired by British Gas plc. On 1 September 1996 the Company's ordinary shares were transferred to GB Gas Holdings Limited ("GBGH"), a wholly owned subsidiary undertaking of British Gas plc.

With effect from 17 February 1997 GBGH became a wholly owned subsidiary of Centrica plc, following the demerger of the trading businesses of British Gas plc to Centrica plc.

On 5 February 1998 Yieldtop Limited changed its name to British Gas Connections Limited.

Principal activities

The principal activity of the Company is the safe and efficient conveyance of gas through its gas transportation network.

Financial results

For the period ended 31 December 1997, the Company incurred an operating loss of £249,000. The loss was deducted from reserves. As at 31 December 1997 the Company had net liabilities of £249,000.

Financial support

Centrica plc has indicated that its intention is to continue to provide financial support to the Company to ensure that it is able to meet its liabilities as and when they fall due and to carry on its business without a significant curtailment of operations.

Business Review

The first licence to transport gas was granted on 16 October 1997.

Looking forward to 1998, the Company's priority is to invest in the design and installation of transportation networks for the conveyance of gas.

Dividends

The Directors are unable to recommend the payment of a dividend for the period ended 31 December 1997.

Charitable and political donations

There were no donations for charitable or political purposes.

Share capital

The authorised share capital of the Company, together with details of shares issued, is shown in note 7 to the accounts.

The Directors

The following served as Directors during the period:

	Appointed	Resigned
Donald William John Patience	1.8.96	30.1.97
Anne Garrihy	1.8.96	30.7.97
Teresa Jane Furnston	30.1.97	30.7.97
Ian Grant Dawson	30.1.97	30.7.97
Roy Alan Gardner	30.7.97	29.10.97
Roger Nicholas Brownlow Wood	30.7.97	-
Mark Sydney Clare	30.7.97	30.10.97
Christopher John Stern	29.10.97	-
Colin James MacMillan	29.10.97	-

DIRECTORS' REPORT - continued**Directors interests**

At no time did any Director, still holding office at 31 December 1997, have any interest in the shares of the Company or any other company within the Centrica Group except for the interests in, and the options over, the shares and interests of the ultimate parent company, Centrica plc, as set out below. Details of the interests of R.N.B. Wood in the shares and options over shares in the ultimate parent company, Centrica plc, are shown in the 1997 Centrica Annual Report and Accounts of that company.

The Directors with interests in ordinary shares of Centrica plc during 1997 (which include those of their families), who were still holding office at 31 December 1997 and not disclosed in the Annual Report and Accounts of Centrica plc are shown below:

Interests in ordinary shares

	As at date of appointment	As at 31 December 1997
C J Macmillan	4,626	4,626
C J Stern	6,338	6,338

i) Interests shown include shares acquired under the British Gas plc Profit Sharing Scheme. Shares were acquired at demerger on the basis of one Centrica plc share for each British Gas plc share.

Sharesave Scheme

	As at date of appointment	As at 31 December 1997
C J Macmillan	29,471	29,471

i) Options over shares in Centrica plc granted in April 1997 at 46.4 pence per share under the terms of Centrica plc's Savings Related Share Option Scheme.

Executive Share Option Scheme

	As at date of appointment	As at 31 December 1997
C J Macmillan	73,425	73,425
C J Stern	62,765	62,765

i) No options lapsed during the period and no options were exercised during the period.

ii) Options are no longer granted under this scheme. The options outstanding, as shown above, were granted at 81.060 pence and are exercisable between October 1997 and October 2004.

Long Term Incentive Scheme

	As at date of appointment	As at 31 December 1997
C J Macmillan	136,769	136,769
C J Stern	181,951	181,951

i) Notional allocations of shares were made on 4 March 1997 and 1 October 1997 under the Centrica Long Term Incentive Scheme at base prices of 67.175 pence and 73.292 pence respectively. Figures given represent the maximum award possible if all performance criteria are met at the end of the performance period (three or four years) and would not be made until the expiry of the retention period (a further two years) in October 2000 - 2001. Awards held at the date of demerger were replaced with Centrica plc shares, with a base price of 81.7 pence.

DIRECTORS' REPORT - continued

The middle market price of a Centrica plc ordinary share on the last day of trading of 1997 (31 December) was 90.25 pence. The range during the year ended 31 December 1997 was 95.25 pence (high) and 56.25 pence (low).

Auditors

Price Waterhouse were appointed as auditors and have expressed a willingness to be re-appointed as auditors of the Company.

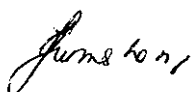
Annual General Meeting

In accordance with the Companies Act 1985, the Company has made an "elective resolution" to dispense with the need to appoint auditors on an annual basis, as permitted by Section 386 of the Companies Act 1985.

The Company has made "elective resolutions" as permitted by Sections 366a and 252 of the Companies Act 1985 to dispense with the holding of annual general meetings and the laying of accounts before them.

This report was approved by the Board on 9 June 1998.

By order of the Board



Mrs. T.J. Furnston
Company Secretary
9 June 1998

British Gas Connections Limited
(formerly Yieldtop Limited)
Registration Number: 3234745
Registered Office:
Charter Court
50 Windsor Road
Slough
Berkshire SL1 2HA

STATEMENT OF DIRECTORS' RESPONSIBILITIES FOR PREPARING THE ACCOUNTS

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

The Directors consider that in preparing the accounts on pages 6 to 11, the Company has used appropriate accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates and all accounting standards which they consider to be applicable have been followed.

The Directors are required to prepare the accounts on the 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 accounts 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 to prevent and detect fraud and other irregularities.

REPORT OF THE AUDITORS TO THE SHAREHOLDER OF BRITISH GAS CONNECTIONS LIMITED (FORMERLY YELDTOP LIMITED)

We have audited the accounts on pages 6 to 11 which have been prepared under the historical cost convention and the accounting policies set out on page 8.

Respective responsibilities of Directors and auditors

As described on page 4, the Company's Directors are responsible for the preparation of 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 the Company's affairs as at 31 December 1997, and of its loss for the period then ended, and have been properly prepared in accordance with the Companies Act 1985.



Price Waterhouse
Registered Auditors
Thames Court
1 Victoria Street
Windsor
Berkshire SL4 1HB

9 June 1998

PROFIT AND LOSS ACCOUNT

	Notes	1 August 1996 to 31 December 1997 £000
Turnover		-
Net operating costs	2	(249)
Operating loss		(249)
Loss on ordinary activities before taxation		(249)
Taxation	4	-
Loss on ordinary activities after taxation retained for the period	8	(249)

The company had no other recognised gains or losses other than those shown above.

All activities relate to continuing operations as defined by the Financial reporting standard No.3 "Reporting Financial Performance".

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

BALANCE SHEET

	Notes	As at 31 December 1997 £000
Fixed assets		
Tangible assets	5	16
Creditors (amounts falling due within one year)	6	(265)
Net current liabilities		(265)
Net liabilities		(249)
Capital and reserves		
Called up share capital	7	-
Profit and loss account	8	(249)
Total shareholder's deficit - equity interest		(249)

The accounts on pages 6 to 11 were approved by the Board of Directors on 9 June 1998 and were signed on its behalf by:

x R.W. x

R.N.B. Wood

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

NOTES TO THE ACCOUNTS

1 Principal accounting policies

Basis of accounting

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

Cash flow statement and related party disclosures

As the company is a wholly owned subsidiary of GB Gas Holdings Limited (a wholly owned subsidiary undertaking until 17 February 1997 of British Gas plc and from that date onwards a wholly owned subsidiary of Centrica plc), the company has taken advantage of the exemptions within Financial Reporting Standard No.1 revised "Cash Flow Statements" from presenting a cash flow statement, and within Financial Reporting Standard No.8 "Related Party Disclosures" from disclosure of transactions with other group companies.

Turnover

Turnover comprises income for the conveyance of gas. The Company is a licensed Public Gas Transporter, as defined in the Gas Act 1986, as amended by the Gas Act 1995. The Company's pricing methodology is agreed under the terms of the licence extension for each site.

Tangible fixed assets

Tangible fixed assets are stated at historical cost less accumulated depreciation.

Tangible fixed assets, are depreciated on a straight-line basis at rates sufficient to write off the book values of individual assets, less estimated residual values, over their estimated useful lives. The depreciation periods for the principal categories of assets are as follows:

Mains	40 years
Services	35 years
Gas Meters	20 years

Deferred taxation

Deferred taxation, in respect of accelerated capital allowances and other timing differences, is provided only to the extent that in the opinion of the directors 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' services. The regular pension cost, variations from the regular pension cost and interest are all charged within employee costs. Pension surpluses and deficits are spread over the average expected remaining service lives of employees as a level percentage of payroll.

2 Net operating costs

The company's operating costs, which have been charged to the profit and loss account comprise:

		1 August 1996 to 31 December 1997
	Notes	£000
Materials and consumables		18
Employee costs	(a)	170
Auditor's remuneration:		
Statutory audit	(b)	-
Other operating charges		61
Net operating cost		249

a) All employees were employed by other companies within the Centrica Group and their costs were recharged to the Company

b) Auditors fees of £1,000 were borne by British Gas Services Limited

NOTES TO THE ACCOUNTS - continued**3 Directors and employees****a) Directors' remuneration and interests**

During the period from incorporation on 1 August 1996 to 31 December 1997 the Directors received no emoluments for their services as directors of the Company.

All the Directors were members of the British Gas Staff pension scheme. The scheme is a funded, Inland Revenue approved, final salary occupational pension scheme.

b) Employee costs

	1 August 1996 to 31 December 1997
	£ 000
Wages and salaries	147
Social security costs	12
Other pension costs	11
Total	170

There were no direct employees, all staff were seconded from other companies within the Centrica Group.

c) Pensions

Substantially, all of the employees seconded to the company's at 31 December 1997 were members of either the British Gas Staff Pension Scheme or the British Gas Corporation Pension Scheme.

The Pension schemes for the Company's employees are defined benefit schemes. The schemes are self-administered and funded to cover future pensions 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 employer's 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 by the Schemes.

The employees continued to participate in the British Gas Schemes until 31 March 1998. Since 1 April 1998 the Company's employees have been eligible to join one of two new pension schemes: the Centrica Staff Pension Scheme or the Centrica Engineers Pension Scheme. These new schemes are defined benefit schemes providing identical benefits to the previous British Gas Schemes.

The long term assumptions applied to calculate the Company's pension costs for 1997 are set out in the 1997 Annual Report and Accounts of Centrica plc. The Company pension cost for the period ended 31 December 1997 was £11,000.

4 Taxation

	Period ended 31 December 1997 £000
Tax Charge	-

The potential deferred taxation asset arising from the periods transactions, has not been recognised in the accounts.

NOTES TO THE ACCOUNTS - continued

5 Tangible fixed assets

	Tangible assets (a) £000
Cost	
As at 1 August 1996	-
Additions	16
As at 31 December 1997	<u>16</u>
Accumulated Depreciation	
As at 1 August 1996	-
Charge for period	-
As at 31 December 1997	<u>-</u>
Net book amount	
As at 31 December 1997	<u>16</u>

a) Fixed assets comprise gas mains, services and meters.

6 Other creditors - Amounts falling due within one year

	As at 31 December 1997 £000
Accruals and deferred income	265
	<u>265</u>

7 Called up share capital

	As at 31 December 1997 £'s
Authorised	
1,000 ordinary shares of £1 each	1,000
Issued, allotted and fully paid	
2 ordinary shares of £1 each	<u>2</u>

At incorporation on 1 August 1996 two ordinary shares of £1 each were issued for cash at par.

NOTES TO THE ACCOUNTS - continued

8 Movements in shareholder's funds

	Profit and loss account £000	Share Capital £000
Loss on ordinary activities after taxation for the period from 1 August 1996 to 31 December 1997	(249)	
Issues of Shares	-	-
Net decrease in shareholder's funds for the period	(249)	-
Shareholder's deficit as at 31 December 1997	(249)	-

9 Commitments and contingencies

The Company is contracted to complete construction of gas mains, services and meters on three sites. Costs to completion are estimated at £30,000.

10 Ultimate parent company

As at 31 December 1997 the Company was an indirect wholly owned subsidiary undertaking of British Gas plc. On 17 February 1997 British Gas plc changed its name to BG plc.

With effect from 17 February 1997, following the demerger from British Gas plc of its trading businesses (including that of British Connections Limited (formerly known as Yieldtop Limited), the Company became an indirect wholly owned subsidiary undertaking of Centrica plc. Centrica plc is the ultimate parent undertaking and the only group to consolidate the accounts of the company. Copies of the Annual Report and Accounts 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.