

BRITISH GAS CONNECTIONS LIMITED

REPORT AND ACCOUNTS

**FOR THE YEAR ENDED
31 DECEMBER 1998**

REGISTERED IN ENGLAND NO: 3234745



BRITISH GAS CONNECTIONS LIMITED

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BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT

The Directors submit their report and the audited accounts of British Gas Connections Limited for the year ended 31 December 1998.

On 5 February 1998 the Company changed its name from Yeldtop Limited to British Gas Connections Limited.

Principal activity

The principal activity of the Company is the safe and efficient conveyance of gas through its gas transportation networks at licensed sites.

Financial results

For the year ended 31 December 1998 the Company incurred an operating loss of £642,000 (17 months ended 31 December 1997: £249,000 loss). The loss after interest and tax of £694,000 (17 months ended 31 December 1997: £249,000) was deducted from reserves. As at 31 December 1998 the Company had net liabilities of £943,000 (1997: £249,000)

Financial support

Centrica plc, the parent undertaking, intends to provide financial support to the Company to ensure that it is both 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

During 1998 the Company's activities had steadily grown in the gas conveyancing market. Looking forward to 1999, the Company's priority is to invest in the design and installation of transportation networks for the conveyance of gas.

Dividends

The Directors have been unable to recommend the payment of a dividend for the year ended 31 December 1998 or the previous period as the Company has had no distributable reserves.

Charitable and political donations

There were no donations for charitable or political purposes.

The Directors

The following served as Directors during the year:

Roger Nicholas Brownlow Wood
Christopher John Stern
Colin James MacMillan
David Philip Kendle (appointed 4 February 1998)

Directors interests

At no time did any Director still holding office at 31 December 1998 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 1998 Centrica Annual Report and Accounts.

The Directors with interests in ordinary shares of Centrica plc during 1998 (which include those of their families), who were holding office at the year end and not disclosed in the Annual Report and Accounts of Centrica plc, are as follows:

BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT - continued

Interests in ordinary shares

	As at 31 December 1998	As at 31 December 1997
C J Macmillan	5,010	4,626
C J Stern	6,722	6,338
D P Kendle	5,794	-

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 31 December 1998	As at 31 December 1997
C J Macmillan	29,471	29,471
C J Stern	10,574	-
D P Kendle	23,802	-

Options over shares in Centrica plc granted in April 1997 were at 46.4 pence per share and those granted in June 1998 were at 92.2 pence per share under the terms of Centrica plc's Savings Related Share Option Scheme.

Executive Share Option Scheme

	Date of exercise	Mid-market price	As at 31 December 1998	As at 31 December 1997
C J Macmillan	24/3/98	116p	-	73,425
C J Stern	20/3/98	112.5p	-	62,765
D P Kendle	18/3/98	111p	-	57,675

Options are no longer granted under this scheme. The options outstanding, as shown above, were granted at 81.06 pence and were exercised during the year.

Long Term Incentive Scheme

	As at 31 December 1998	As at 31 December 1997
C J Macmillan	175,312	136,769
C J Stern	241,574	181,951
D P Kendle	104,096	-

Notional allocations of shares were made on 4 March 1997, 1 October 1997 and 1 October 1998 under the Centrica Long Term Incentive Scheme at base prices of 67.17 pence, 73.29 pence and 99.49 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 81.70 pence.

The middle market price of a Centrica plc ordinary share on the last day of trading of 1998 (30 December) was 121.00 pence. The range during the year ended 31 December 1998 was 126.75 pence (high) and 83.00 pence (low).

BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT - continued

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 1 July 1998.

Year 2000 and Euro costs

Progress against detailed plans to deal with the risks associated with Year 2000 business-readiness is monitored monthly by the Board.

By the end of 1998 the Company had achieved business-readiness in all but a few key systems. In 1999 work will be undertaken with information technology and service suppliers to complete this task, to carry out comprehensive testing and to ensure that the necessary contingency plans are put in place.

During 1998 the cost of addressing Year 2000 business-readiness was borne by British Gas Services Limited.

Detailed impact analysis has identified areas that would require Euro conversion and the required lead times for the amendment of key systems. Plans are now being developed to enable the Company to amend its systems in the event that a decision is made in favour of UK adoption of the Euro.

Annual General Meeting

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 reappoint auditors annually.

By order of the Board



R N B Wood
Director
22 September 1999

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

BRITISH GAS CONNECTIONS LIMITED

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 that period.

The Directors consider that in preparing the accounts on pages 6 to 12, 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 at any time the financial position of the Company and which enable them to ensure that the accounts comply with the Companies Act 1985.

The Directors have a general responsibility to act in good faith in the interests of the Company and accordingly ensure that reasonable financial and other controls are adopted to safeguard the assets of the Company and to detect and reduce the risk of fraud and other irregularities.

BRITISH GAS CONNECTIONS LIMITED

REPORT OF THE AUDITORS TO THE SHAREHOLDER OF BRITISH GAS CONNECTIONS LIMITED

We have audited the accounts on pages 6 to 12 which have been prepared under the historical cost convention and the accounting policies set out on pages 8 and 9.

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 prepared 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 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 the Company's affairs as at 31 December 1998 and of its loss for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Thames Court
1 Victoria Street
Windsor
Berkshire SL4 1HB

22 September 1999

BRITISH GAS CONNECTIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	Year ended 31 December 1998 £000	1 August 1996 to 31 December 1997 £000
Turnover	2	20	-
Net operating costs	3	(662)	(249)
Operating loss		(642)	(249)
Interest payable	5	(52)	-
Loss on ordinary activities before taxation		(694)	(249)
Taxation	6	-	-
Loss for the financial year/period	11	(694)	(249)

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

All activities relate to continuing operations.

The notes on pages 8 to 12 form part of these accounts.

BRITISH GAS CONNECTIONS LIMITED

BALANCE SHEET FOR THE YEAR ENDED 31 DECEMBER 1998

	Notes	1998 £000	1997 £000
Fixed assets			
Tangible assets	7	1,067	16
Current assets			
Stocks	8	65	-
Cash at bank and in hand		10	-
		75	-
Creditors: amounts falling due within one year	9	(2,085)	(265)
Net current liabilities		(2,010)	(265)
Net liabilities		(943)	(249)
Capital and reserves			
Called up share capital	10	-	-
Profit and loss account	11	(943)	(249)
Total shareholder's deficit - equity interest		(943)	(249)

The accounts on pages 6 to 12 were approved by the Board of Directors on 22 September 1999 and were signed on its behalf by:


R N B Wood
Director

The notes on pages 8 to 12 form part of these accounts.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

1 Basis of preparation

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited (a wholly owned subsidiary undertaking of Centrica plc) and has, therefore, taken advantage of both the exemptions within Financial Reporting Standard No.1 Revised "Cash Flow Statements" from presenting a cash flow statement and the exemptions within Financial Reporting Standard No.8 "Related Party Disclosures" from disclosure of transactions with other group companies.

2 Principal accounting policies

Basis of accounting

The accounts have been prepared under the historical cost convention. The accounting policies adopted comply with UK Financial Reporting Standards and Statements of Standard Accounting Practice.

Turnover

Turnover comprises income, exclusive of sales tax, from 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 has only one class of business and operates solely within Great Britain.

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. Where there is evidence of impairment assets are written down to recoverable amount. The depreciation periods for the principal categories of assets are as follows:

Installation of gas mains and meters	20 years
Office and information technology equipment	3 years

Installation of gas mains and meters comprises the costs associated with the design and construction of gas transportation networks at licensed sites.

Stocks

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

Pensions

The cost of providing retirement pensions and related benefits are recharged from other companies within the Centrica group and are 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 and the straight-line method is applied for amortising surpluses and interest.

Taxation

The charge or credit for taxation is based on the result for the year and takes into account taxation deferred or accelerated due to timing differences between the treatment of certain items for accounting and taxation purposes.

Deferred taxation is the taxation attributable to timing differences between profits computed for taxation purposes and profits as stated in the accounts. Provision is made for deferred taxation under the liability method except to the extent that there is a probability of the liability not crystallising in the foreseeable future.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS - continued

Year 2000 and Euro costs

Costs incurred in preparing computer systems for the Year 2000 and the introduction of the Euro are written off as incurred unless there is a significant enhancement in existing assets in which case the costs are capitalised and depreciated in line with Company policy.

3 Net operating costs

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

		Year ended 31 December 1998	1 August 1996 to 31 December 1997
	Notes	£000	£000
Materials and consumables		-	18
Employee costs	(a)	621	170
Own work capitalised		(319)	-
Depreciation		1	-
Auditor's remuneration:			
Statutory audit	(b)	-	-
Other operating charges		359	61
Net operating cost		662	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 £5,000 were borne by British Gas Services Limited

4 Directors and employees

a) Directors' remuneration and interests

During the year the Directors received no emoluments for their services as Directors of the Company (period ended 31 December 1997: £nil).

All the Directors were members of the British Gas Staff pension scheme until 31 March 1998. On 1 April 1998 they transferred their past service on the same terms and commenced membership of the Centrica Staff Pension Scheme. The scheme is a funded, Inland Revenue approved, final salary occupational pension scheme.

b) Employee costs

	Year ended 31 December 1998	1 August 1996 to 31 December 1997
	£000	£000
Wages and salaries	517	147
Social security costs	44	12
Other pension costs	60	11
	621	170

There were no direct employees. All staff were seconded from other companies within the Centrica Group. The above shows the analysis of costs recharged to the Company for the seconded staff.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS - continued

c) Pensions

As at 31 December 1998 substantially all of the employees seconded to the Company were members of either the Centrica Staff Pension Scheme or the Centrica Engineers Pension Scheme.

The Pension schemes for employees seconded to the Company are defined benefit schemes. The schemes are self-administered and 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, those seconded to the Company and proceeds from the schemes' assets, is expected to be sufficient to fund the benefits payable under the schemes.

The employees seconded to the Company participated in British Gas schemes until 31 March 1998. As at 1 April 1998 the seconded employees had the option to join one of two new pension schemes: the Centrica Staff Pension Scheme or the Centrica Engineers Pension Scheme. These new defined benefit schemes provide identical benefits to the British Gas schemes as at 31 March 1998.

A share of each of the British Gas schemes' assets was transferred during the year to the corresponding new Centrica schemes in proportion to the share of the total accrued British Gas schemes' liabilities as at 31 March 1998 that were attributable to employees and seconded employees electing to transfer.

The latest formal, independent, actuarial valuation was undertaken as at 31 March 1998. The long-term assumptions applied to calculate the Company's pension costs for 1998 are set out in the 1998 Annual Report and Accounts of Centrica plc. The contributions payable by the Company are calculated based upon the pension cost across the Group. The pension cost recharged to the Company for the year ended 31 December 1998 was £60,000 (1997: £11,000).

5 Interest payable

	Year ended 31 December 1998 £000	1 August 1996 to 31 December 1997 £000
Interest payable on debt financing	52	-

6 Taxation

Consistent with the previous period, taxation losses have been surrendered for no consideration for the purposes of group relief.

The following potential deferred taxation assets/(liabilities) exist but have not been recognised or provided in the accounts:

	1998 £000	1997 £000
Accelerated capital allowances	(34)	-
Other timing differences	12	-
	(22)	-

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS - continued

7 Tangible fixed assets

	Tangible assets £000
Cost	
As at 1 January 1998	16
Additions	1,052
	<hr/>
As at 31 December 1998	1,068
	<hr/>
Accumulated depreciation	
As at 1 January 1998	-
Charge for the year	1
	<hr/>
As at 31 December 1998	1
	<hr/>
Net book amount	
As at 31 December 1998	1,067
	<hr/>
As at 31 December 1997	16
	<hr/>

As at 31 December 1998 fixed assets comprised the installation of gas mains and meters, and office and information technology equipment.

8 Stocks

	1998 £000	1997 £000
Meter stocks	65	-
	<hr/>	<hr/>

9 Creditors: amounts falling due within one year

	1998 £000	1997 £000
Amounts owed to Group undertakings	2,082	265
Accruals and deferred income	3	-
	<hr/>	<hr/>
	2,085	265
	<hr/>	<hr/>

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NOTES TO THE ACCOUNTS - continued

10 Called up share capital

	As at 31 December 1997 and 31 December 1998 £000
Authorised 1,000 ordinary shares of £1 each	1
Issued, allotted and fully paid 2 ordinary shares of £1 each	-

11 Reserves

	Profit and loss account £000
As at 1 January 1998	(249)
Loss for the financial year	(694)
As at 31 December 1998	(943)

12 Movements in shareholder's deficit

	1998 £000	1997 £000
Loss for the financial period	(694)	(249)
Shareholder's deficit as at 1 January 1998/1 August 1996	(249)	-
Shareholder's deficit as at 31 December	(943)	(249)

13 Commitments and contingencies

As at 31 December 1998 the Company was contracted to complete the installation of gas mains and meters on over 200 sites. Costs to completion are estimated at £2.5 million.

14 Ultimate parent company

The Company is 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.