

**BG Storage Limited  
Directors' Report and Financial Statements**

**For the Period  
1 December 1999 to 31 December 2000**



**Directors' Report and Financial Statements  
For the period ended 31 December 2000**

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**Directors' Report**

**For the period ended 31 December 2000**

The Directors submit their report and the audited financial statements for the period from 1 December 1999 to 31 December 2000.

**Principal Activities**

The principal activity of the Company is the storage of gas in the United Kingdom which for the purposes of the Companies Act 1985, constitutes one class of business.

BG Storage Limited operates the Rough offshore facility, which is a partially depleted gas field, and the salt cavity facilities at Hornsea, both in the United Kingdom.

**Review of Business and Future Developments**

BG Storage Limited was incorporated on 18 December 1996 and remained dormant until it commenced trading on 1 December 1999. The assets of BG Storage were transferred into BG Storage Limited at their carrying value on 14 December 1999. Previously BG Storage Limited had traded as a business unit of BG plc since 1997.

During February and March 2000, BG Storage Limited conducted the second series of annual capacity auctions in accordance with the deregulation agreement reached with Ofgem. Hornsea sold out at the auction and was 325% over subscribed. The market clearing price was 26% higher than the 1999 market clearing price. The initial Rough auctions were disappointing with 46.7% of the site capacity being sold at auction. However, subsequent sales resulted in 100% of the firm deliverability being sold.

Whilst this represented an improvement on the previous year, the value realised was less than expected and a review of the carrying value of the Rough facility was announced with the first quarter BG Group plc results. During the second quarter, BG Storage Limited wrote down the value of the Rough asset by £200m. Over recent years, the costs associated with developing offshore assets and storage facilities have declined substantially. It is competition from these new low cost facilities which will ultimately cap the future revenue streams for Rough, and the decision was taken based on recent indications that the future anticipated market conditions could not support the former high valuation.

In October 2000, Ofgem published a review of the development of competition in the gas storage market. The review concluded that the reforms introduced over the last two years have been an undoubted success and there are clear signs that competition in storage is emerging. The auctions have resulted in greater shipper usage of the storage facilities.

With regard to future developments, BG Storage Limited was granted planning permission to develop salt cavities at Aldbrough in East Yorkshire in February 2000. Whilst the significant increase in volatility in gas prices during 2000 and the forecast for tightening in the supply demand balance indicate an improving market for storage, there is insufficient economic justification for immediately commencing the development at Aldbrough.

When BG Storage Limited has optimised its existing facilities at Hornsea, the Aldbrough development will provide essential additional storage capability. BG Storage Limited will continue to carefully review the gas market to ensure that the development is in place when required, with all options for Aldbrough being kept under constant review.

## BG Storage Limited

### Directors

Directors in post during the accounting period 1 December 1999 to 31 December 2000 were:

	<b>Appointed</b>	<b>Resigned</b>
W M Friedrich	1 December 1999	-
A G S Geddes	21 August 2000	-
H C Higgins	1 December 1999	1 February 2001
M C F Kinoulty	1 December 1999	-
L M Pitchford	1 December 1999	23 March 2001
W P Russell	1 December 1999	31 July 2000
J G Ward	1 December 1999	9 March 2001

Mr N Shaw was appointed as a Director on 1 February 2001.

### Directors' Interests in Shares

At no time did any Director still holding office at 31 December 2000, have any beneficial interest in the shares of the Company or any other company within the BG Group plc except for those interests in the shares of the ultimate parent company BG Group plc stated below.

The interests of Mr W M Friedrich who is also a director of the ultimate parent company, BG Group plc, are shown in the annual report of that company.

	<b>On appointment Ordinary Shares</b>	<b>31 Dec 2000 Ordinary Shares</b>
H C Higgins	11,370	69,698
M C F Kinoulty	7,129	32,162
L M Pitchford	-	832
J G Ward	5,822	2,968

### Directors' Interests in Options over Ordinary Shares

The number of share options held by the Directors under the BG Sharesave Scheme and the BG Group Sharesave Scheme are shown overleaf. Each share option is over one ordinary share in BG Group plc.

## BG Storage Limited

### Sharesave Scheme

	Options on appointment	Options lapsed during the period	Options exercised during the period	Market price @ date of exercise £	Gain on exercise £	Options granted during the year	Options as at 31 Dec 2000	Exercise price £	Earliest normal exercise date	Expiry date
H C Higgins	14,388	0	14,388	4.06	38,848	4,230	4,230	2.29	01/03/2004	01/09/2004
M C F Kinoulty	7,176	1,622	5,554	4.06/4.37	15,026	4,230	4,230	2.29	01/03/2004	01/09/2004
L M Pitchford	0	0	0	0.00	0	4,230	4,230	2.29	01/03/2004	01/09/2004
J G Ward	0	0	0	0.00	0	4,230	4,230	2.29	01/03/2004	01/09/2004

### Company Share Option Scheme

The number of share options held by the Directors under the BG Group Company Share Option Scheme were as follows (each share option is over one ordinary share in BG Group plc).

	Options on appointment	Options granted during the year	Options as at 31 Dec 2000	Exercise price £	Earliest normal exercise date	Expiry date
A G S Geddes	0	19,553	19,553	2.685	03/11/2003	03/11/2010
H C Higgins	0	33,880	33,880	2.685	03/11/2003	03/11/2010
M C F Kinoulty	0	20,297	20,297	2.685	03/11/2003	03/11/2010
L M Pitchford	0	13,360	13,360	2.685	03/11/2003	03/11/2010
J G Ward	0	22,346	22,346	2.685	03/11/2003	03/11/2010

The Company Share Option Scheme was introduced following Demerger and the first award was made in November 2000. No options were exercised or lapsed during the accounting period.

### Long Term Incentive Scheme

	Notional allocation of shares at appointment	Gross no of shares transferred at Demerger	Gross value of shares transferred at Demerger £	Reconstitution of 1999 notional allocations post Demerger	Notional allocations of shares made on 3 Nov 2000	Notional allocations of shares at 31 Dec 2000
A G S Geddes	0	0	0	0	6,539	6,359
H C Higgins	103,909	45,161	308,983	21,426	37,019	58,445
M C F Kinoulty	47,147	22,623	154,783	6,601	12,267	18,868
L M Pitchford	6,337	0	0	4,345	3,052	7,397
J G Ward	16,910	0	0	7,268	14,772	22,040

The notional allocation of shares made in October 1999 was forfeited and replacement allocations have been made over shares under the New Long Term Incentive Scheme.

Awards were made in November 2000 under the New Long Term Incentive Scheme introduced following demerger.

For further details of the Sharesave Scheme, Company Share Option Scheme and Long Term Incentive Scheme, including performance criteria and treatment on demerger, please refer to the BG Group plc accounts.

### **Demerger**

Following the Demerger of the Lattice Group plc on 23 October 2000, shares allocated under the Executive Share Option Scheme, the 1999 Long Term Incentive Scheme and pilot Short Term Incentive Scheme were restated to take account of the fall in value of the shares. In all cases, the number of shares were increased by a factor of 1.532008 and the option or base price reduced by a factor of 0.652738. These figures were calculated on the 10 day averages of BG Group plc and Lattice Group plc shares from their first day of trading on 23 October 2000 as proportions of the combined share prices.

Dividends received by the Trustees in June 2000 in relation to the Long Term Incentive Scheme allocations made in October 1995 and March 1997 were reinvested into shares and added to the individual participants' allocations prior to demerger. As a result of demerger, notional allocations of shares made in October 1995, March 1997, October 1997 and October 1998 under this Scheme were transferred early to participants, based on the extent to which the respective performance targets had been achieved.

Employees were given the option of exercising their Sharesave options early to the value of savings accrued.

### **Pilot Short Term Incentive Scheme**

A pilot Short Term Incentive Scheme was introduced on 1 January 2000 applicable to certain employees, with a performance period ending on 31 December 2000. At that time, the relevant percentage achieved as a result of performance would be placed in Trust for a one year retention period.

Full details of all employee share schemes can be found in the BG Group plc Annual Report and Accounts 2000.

### **Review of results and dividend**

The results for the period are set out in the profit and loss account on page 9. The retained loss for the period of £133,208,000 has been transferred from reserves.

No dividends have been paid during the period.

### **Employees**

The Company had 251 employees at 31 December 2000, all of whom were based in the UK. For employees of the Company there are well established and effective arrangements through electronic mail and the Company's intranet and in-house publications, as well as videos and briefing meetings at each business location, for communication of the Company's results and significant business issues. When necessary, consultation with employee and Trade Union representatives also takes place.

The Company takes a positive approach to equality and diversity. By tapping into the talent and skills available in all groups and communities in which it operates, the Company underpins the lasting success of the business. The Company achieves this by using appropriate recruitment and selection techniques, ensuring equality of employment opportunity and equal access to development opportunities.

## **BG Storage Limited**

The Company is also committed to providing a work environment free from harassment and discrimination and remains committed to fair treatment of people with disabilities in relation to job applications, training, promotion and career development. Every effort is made to find appropriate alternative jobs for those who are unable to continue in their existing job due to disability.

Employees of the Company are encouraged to become shareholders in the Group. The majority hold ordinary shares under the Company Employee Profit Sharing Scheme and are members of its Sharesave Scheme.

### **Year 2000**

BG Storage Limited successfully managed the millennium date change without material disruption to its operations. Formal programmes of work were set up in each of BG Storage Limited's departments to address the issue. In house preparations were made for the millennium transition by way of systems inventory, replacement or remediation, testing and protection. In addition, BG Storage Limited worked with its supply chain partners to ensure end to end resilience.

### **The Euro**

BG Storage Limited has little involvement with euro zone countries or currencies that are participants in EMU. Trading is principally in Sterling. The introduction of the single currency on 1 January 1999 did not have a material effect on the company.

### **Policy on the Payment of Creditors**

The Company aims to pay all of its creditors promptly. For trade creditors, it is the Company's policy to:

- i) agree the terms of the payment at the start of business with that supplier;
- ii) ensure that suppliers are aware of the terms of payment; and
- iii) pay in accordance with contractual and other legal obligations.

The company had 11 days' purchases outstanding as at 31 December 2000 based on the average daily amount invoiced by suppliers during the period.

### **Auditors**

PricewaterhouseCoopers have expressed their willingness to be re-appointed as Auditors of the Company.

By order of the Board



John Edward Henry Griffin  
Secretary  
Date: 6 July 2001

**Directors' Responsibilities Statement**

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

The Directors consider that in preparing the financial statements on pages 9 to 22 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 have responsibility for ensuring that the Company keeps accounting records which disclose with reasonable accuracy the financial position of the Company and which enables 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 to prevent and detect fraud and other irregularities.

The Directors, having prepared the financial statements, have requested the auditors to take whatever steps and undertake whatever inspections they consider to be appropriate for the purpose of enabling them to give their audit report.



## **Auditors' Report to the Members of BG Storage Limited**

We have audited the financial statements on pages 9 to 22 which have been prepared under the historical cost convention and the accounting policies set out on pages 11 to 13.

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

The Directors are responsible for preparing the Annual Report. As described on page 7, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom 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 United Kingdom 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 affairs of the Company as at 31 December 2000 and of the loss for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



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

Date: 6 July 2001

**Profit and Loss Account**

**For the period from 1 December 1999 to 31 December 2000**

	<b>Notes</b>	<b>Period Ended 31 Dec 2000</b>
		<b>£000</b>
<b>Turnover</b>	3	88,949
Operating costs		<u>(278,934)</u>
<b>Total operating loss</b>	4	(189,985)
Loss on disposal of fixed assets		<u>(58)</u>
<b>Loss on ordinary activities</b>	4	(190,043)
Net interest payable	7	<u>(17,533)</u>
<b>Loss on ordinary activities before taxation</b>		(207,576)
Taxation	8	<u>74,368</u>
<b>Loss on ordinary activities after taxation</b>		<u>(133,208)</u>
<b>Retained loss for the period</b>	17	<u><u>(133,208)</u></u>

The results for the period are derived solely from continuing operations.

There are no recognised gains and losses other than those reported in the profit and loss account.  
There is no difference between the historical cost profits and losses and the results presented.

The notes on pages 11 to 22 form part of these financial statements.

**Balance Sheet**

	Notes	As at 31 Dec 2000
		£000
<b>Fixed Assets</b>		
Tangible assets	9	453,247
<b>Current Assets</b>		
Stocks	10	6,592
Debtors	11	28,124
		<hr/> 34,716
<b>Creditors (amounts falling due within one year)</b>	12	(24,894)
		<hr/>
<b>Net current assets</b>		9,822
		<hr/>
<b>Total assets less current liabilities</b>		463,069
		<hr/>
<b>Creditors (amounts falling due after more than one year)</b>	13	-
<b>Provisions for liabilities and charges</b>	14	(133,020)
		<hr/>
<b>Net assets</b>		330,049
		<hr/> <hr/>
<b>Capital and reserves</b>		
Called up share capital	16	463,257
Profit and loss account	17	(133,208)
		<hr/>
<b>Equity shareholders' funds</b>	18	330,049
		<hr/> <hr/>

The financial statements on pages 9 to 22 were approved by the Board of Directors on 6 July 2001 and were signed on its behalf by:

*Nigel Shaw*

**Nigel Shaw**  
**Director**

## **Notes to the Financial Statements**

### **1 Ultimate Parent Company**

BG Group plc, a company registered in England and Wales is the ultimate holding company. BG Group plc has a 100% interest of the equity share BG Energy Holdings Limited. BG Energy Holdings Limited has a 100% interest in the equity share capital of BG Storage Limited.

Copies of the parent company's consolidated accounts can be obtained from BG Group plc, 100 Thames Valley Park Drive, Reading, Berkshire, RG6 1PT.

### **2 Principal Accounting Policies**

The financial statements have been prepared in accordance with applicable accounting standards in the UK. A summary of the more important accounting policies, which have been applied consistently, is set out below.

#### **Basis of Accounting**

The financial statements are prepared in accordance with the historical cost convention.

The transfer of the assets from BG Group plc to BG Storage Limited on 14 December 1999 was treated as a group reconstruction and was accounted for under Merger Accounting principles. As such, the accounts have been prepared in accordance with Financial Reporting Standard No. 6 'Acquisitions and Mergers'.

Prior year disclosures have not been shown on the basis that it is impractical to extract the information from the other areas of business covered by the previous operating entity.

#### **Exemptions**

The Company has taken advantage of the Exemptions available to wholly owned UK subsidiaries under Financial Reporting Standard No.1 (Revised) "Cashflow Statements", and accordingly has not prepared a cashflow statement; and within 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 historic cost less accumulated depreciation, representing their value to the business.

Depreciation is calculated so as to write-off the cost of tangible fixed assets, less their estimated residual values on a straight line basis, over the expected useful economic lives of the assets concerned. The depreciation periods for the principle categories of asset are as follows:

Land & Buildings	Up to 50 years
Gas Storage Facilities	Up to 50 years
Pipelines	Up to 30 years
Plant & Machinery	Up to 40 years
Other	Up to 40 years

Impairment is calculated as the difference between the carrying values of income generating units and the estimated value in use at the date the impairment loss is recognised. Value in use represents the net present value of expected future cashflows discounted on a pre-tax basis. Impairment of fixed assets is recognised in the profit and loss account.

**Stocks**

Stocks are valued at weighted average historical cost less provision for obsolescence and deterioration.

**Revenue Recognition**

Storage capacity revenues are recognised over the contract period, whilst commodity revenues are recognised at the point of gas flowing into or out of the Storage facilities.

**Decommissioning Costs**

Operators of oil and gas fields on the United Kingdom Continental Shelf are required to remove installations to the extent considered acceptable to the Department of Trade and Industry.

Provision is made for the net present value of the estimated cost of decommissioning at the end of producing lives of fields. When this provision gives access to future economic benefits an asset is recognised; otherwise the provision is charged to the Profit and Loss Account. The unwinding of the discount to the net present value is reported in the profit and loss account as a financial item and is added to the net interest charge.

**Deferred Taxation**

Provision is made for deferred corporation tax, in respect of accelerated capital allowances and other timing differences, on a full provision, undiscounted basis in accordance with Financial Reporting Standard No 19 'Deferred Tax'.

**Royalties**

Provision is made on a unit of production basis for royalties expected to arise in the foreseeable future. Changes in estimates are dealt with prospectively.

**Leases**

Rentals under operating leases are charged to the Profit and Loss Account as incurred.

**Financial Instruments**

BG Storage Limited utilises gas futures executed on the International Petroleum Exchange and over the counter forward purchases and sales of gas. All forward contracts are for physical delivery of gas, with no net cash settlement, and are accounted for as normal purchases and sales.

**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. The difference between the charge or credit to the profit and loss account and the contributions paid to the pension schemes in which the Company participates, is shown as an increase or decrease in the provision.

**3 Turnover**

Turnover, which excludes value added tax and is stated gross of royalties, represents amounts receivable for sales of storage and gas is as follows:

	<b>Period ended 31 Dec 2000 £000</b>
Storage	71,909
Other (including gas sales)	17,040
	<u>88,949</u>

**4 Operating Loss**

Operating loss is stated after charging:

	<b>Period ended 31 Dec 2000 £000</b>
Historic cost depreciation charge for the period:	
Tangible owned fixed assets - Charge for the period	32,500
- Other adjustments (a)	(5,679)
Exceptional item (see note 6)	200,000
Auditors' remuneration for:	
Audit services	71
Non audit services	14
Lease rentals (other)	419

- (a) Other adjustments include amounts relating to the changes in the economic life of Rough on decommissioning (see note 14).

Employee Costs are shown as follows:

**Period ended  
31 Dec 2000  
£000**

Wages and salaries	10,280
Social Security costs	1,038
Pension costs	1,168
Long Term Incentive Scheme	726
Employee Profit Sharing Scheme	1,035
Share Save Scheme	423
	<hr/>
	14,670
	<hr/>

Average number of employees during the period:

**Period ended  
31 Dec 2000  
Number**

Offshore	103
Onshore	66
Electrical and administration	83
	<hr/>
	252
	<hr/>

Average employee numbers are based on an average monthly headcount.

## **5 Directors' Emoluments**

**Period ended  
31 Dec 2000  
£000**

Fees and salaries	551
Taxable benefits	57
Pension scheme contributions	16
	<hr/>
	624
	<hr/>

Taxable benefits include such items as company car, fuel and medical insurance.

All of the Directors who served during the period are members of the BG Staff Pension Scheme. This scheme is of the defined benefit final salary type.

The emoluments, pension contributions for the period and the value of the pension contributions accruing for the highest paid director, Mr W M Friedrich, who is also a director of the ultimate parent company, BG Group plc, are shown in the annual report of that company.

**6. Exceptional Items**

**Impairment**

During 2000, a review of the carrying value of the UK storage assets resulted in a £200m exceptional charge to operating profit in respect of the impairment of the Rough offshore storage facility. The review was based upon estimated value in use, calculated from forecast pre-tax cash flows discounted at 8%. Forecast cash flows were based upon assumptions in respect of the UK and European gas markets, supported by external market studies. The net book value of Rough's fixed assets as at 31 December 2000, following impairment was £397m.

**7 Net Interest**

	<b>Period ended 31 Dec 2000 £000</b>
Interest payable:	
On intercompany loan	15,703
Interest payable on customer deposits	76
Unwinding of discount	1,756
Interest receivable	(2)
	<hr/> 17,533 <hr/>

An Intercompany loan received from BG International Limited (BV), was repaid on 4 December 2000 (see note 13). Interest was accrued at a rate of 1.5% above LIBOR.

**8 Taxation on Ordinary Activities**

	<b>Period ended 31 Dec 2000 £000</b>
<b>United Kingdom corporation tax at 30%</b>	
Current	(2,171)
Deferred taxation (see note 14)	(72,197)
	<hr/> (74,368) <hr/>

The deferred taxation credit arising in the year is due to the exceptional impairment charge for the year of £200m (see note 6).



**9 Tangible Fixed Assets**

	<b>Freehold Land &amp; Buildings £000</b>	<b>Gas Storage Facilities £000</b>	<b>Pipelines £000</b>	<b>Plant &amp; Machinery £000</b>	<b>Other £000</b>	<b>Total £000</b>
<b>Cost</b>						
At 1 Dec 1999	-	-	-	-	-	-
Transfers In at 14 Dec 1999	12,732	939,977	32,110	115,911	3,433	1,104,163
Additions	-	11,614	-	8,357	929	20,900
Other intercompany transfers in	-	370	-	-	-	370
Other adjustments (a)	-	(5,642)	-	(36)	(1)	(5,679)
Disposals	(268)	-	-	-	-	(268)
At 31 Dec 2000	12,464	946,319	32,110	124,232	4,361	1,119,486
<b>Accumulated Depreciation</b>						
At 1 Dec 1999	-	-	-	-	-	-
Transferred in at 14 Dec 1999	(2,936)	(382,057)	(10,147)	(43,085)	(981)	(439,206)
Charge for the period	(400)	(27,301)	(949)	(3,208)	(642)	(32,500)
Impairment (b)	(5)	(165,515)	(8,325)	(26,103)	(52)	(200,000)
Other intercompany transfers in	-	(212)	-	-	-	(212)
Other adjustments (a)	-	5,679	-	-	-	5,679
Disposals	-	-	-	-	-	-
At 31 Dec 2000	(3,341)	(569,406)	(19,421)	(72,396)	(1,675)	(666,239)
Net Book Value At 31 Dec 2000	9,123	376,913	12,689	51,836	2,686	453,247
Net Book Value At 1 Dec 1999	-	-	-	-	-	-

- a) Other adjustments include amounts relating to the changes in the economic life of Rough on decommissioning (see note 14).
- b) Represents a £200m exceptional charge in respect of the impairment of Storage Fixed Assets (see note 6).

During the period, a decision was taken to extend the economic life of the Rough asset from 2016 to 2030. External Engineering Studies indicated that the operational profile was significantly greater than had been originally thought. The extension was accounted for with effect from 1 October 2000. The effect of the life extension is to reduce the depreciation charge for the year by £3m.

**10 Stocks**

	<b>As at 31 Dec 2000 £000</b>
Gas stocks	1,949
Raw materials and consumables	4,643
	<u>6,592</u>

Gas stocks are held at weighted average price. The estimated value of replacement of these stocks at 31 December 2000 is £3.7m.

Raw materials and consumables are stated at cost less provision for deterioration and obsolescence of £1.7m.

**11 Debtors**

	<b>As at 31 Dec 2000 £000</b>
Amounts falling due within one year:	
Trade debtors	85
Amounts owed by fellow subsidiary undertakings	18,110
Other debtors	1,680
Prepayment and accrued income	6,078
Corporation tax	2,171
	<u>28,124</u>

**12 Creditors (amounts falling due within one year)**

	As at 31 Dec 2000 £000
Bank overdraft	(618)
Trade creditors	(1,240)
Due to parent company and fellow subsidiary undertakings	(9,580)
Taxation and social security	(2,574)
Other creditors	(3,202)
Accruals and deferred income	(7,680)
	<u>(24,894)</u>

**13 Creditors (amounts falling due after more than one year)**

An Intercompany loan of £220m was received from BG International Limited (BV) on 30 December 1999. This loan was fully repaid on 4 December 2000 from the proceeds of an issue of shares on the 4 December 2000 (see note 16). Interest was payable on this loan at a rate of 1.5% above LIBOR (see note 7).

**14 Provisions for Liabilities and Charges**

	Deferred Taxation £000	Decommissioning Costs £000	Other £000	Total £000
At 1 Dec 1999	-	-	-	-
Transfer in at 14 Dec 1999	(159,617)	(43,287)	(8,767)	(211,671)
Other movements	-	(4,467)	1,805	(2,662)
Profit and loss account	72,197	5,679	5,193	83,069
Unwinding of discount	-	(1,756)	-	(1,756)
As at 31 Dec 2000	<u>(87,420)</u>	<u>(43,831)</u>	<u>(1,769)</u>	<u>(133,020)</u>

**Deferred Taxation**

The deferred taxation provisions comprise:

**As at**  
**31 Dec 2000**  
**£000**

Accelerated capital allowances	100,569
Other	(13,149)
	<hr/> 87,420 <hr/>

This represents the provision for taxation attributable to timing differences between profits and losses compiled for tax purposes and results as stated in the Financial Statements. Deferred Taxation is provided for on a full provision, undiscounted basis. The deferred taxation credit arising in the year is due to the exceptional impairment charge for the year of £200m (see note 6).

**Decommissioning Costs**

The estimated cost of decommissioning at the end of the life of the storage facilities is based on engineering estimates and reports from independent experts. Provision is made for the estimated cost of decommissioning at the balance sheet date. The payment dates of total expected future decommissioning costs is uncertain, but are currently anticipated to be between 2003 and 2050.

**Other Provisions**

The provision as at 31 December 2000, represents amounts payable in future periods for Royalties.

The provision transferred in at 14 December 1999 reflects anticipated gas replacement costs for the Rough field. The provision was utilised during the period.

**15 Related Party Disclosures**

The Company has taken advantage of the exemption contained in Financial Reporting Standard No. 8 – “Related Party Disclosures” – FRS8 not to disclose transactions with its parent undertakings, fellow subsidiary undertakings or the associated undertakings of any group company on the grounds that it is a 100% owned subsidiary and the consolidated financial statements in which the company is included are publicly available.

Details of the company’s immediate and ultimate parent undertakings are disclosed in note 1.

*Under the terms of the demerger, BG Group plc and Lattice Group plc agreed transitional arrangements for the provision by each to the other of certain services (including the use of certain properties, telecommunications, pensions administration and payroll) on arm’s length terms, and the supply of certain historic information concerning the other group’s businesses.*

These transitional arrangements were designed to ensure that each party would bear an equitable share of the costs of the relevant services, provided until they have established their own separate arrangements.

## BG Storage Limited

BG Group plc's leasing business, which was demerged to Lattice Group plc, continues to supply BG Storage Limited with leased vehicles. BG Group plc's technology services business, which was demerged to Lattice Group plc, continues to provide technology development services, use of facilities and technical services to BG Storage Limited. BG Group plc and Lattice Group plc retain a joint interest in certain proprietary procurement software. All transactions are on an arm's length basis.

Since demerger, BG Storage Limited has charged £296,000 to and received charges of £359,000 from Lattice Group plc in respect of services described above. As at 31 December 2000, BG Storage Limited owed £391,000 to and was owed £201,000 by Lattice group plc.

### 16 Called Up Share Capital

	Number of Shares '000	As at 31 Dec 2000 £000	As at 1 Dec 1999 £000
Ordinary share of £1 each Authorised	500,000	500,000	500,000
Allotted and fully paid	463,257	463,257	-

On 14 December 1999, 243,257,000 shares were issued for cash at £1 each.

On 4 December 2000, a further 220,000,000 shares were issued for cash at £1 each.

### 17 Reserves

	Profit & Loss Account £000
Balance at 1 Dec 1999	-
Transfer to profit and loss account for the period	(133,208)
Balance at 31 Dec 2000	(133,208)

### 18 Reconciliation of movements in Shareholders' Funds

	£'000
Loss for the financial period	(133,208)
Issue of shares	463,257
Net movement in shareholders' funds for the financial period	330,049
Shareholders' funds as at 1 Dec 1999	-
Shareholders' funds as at 31 Dec 2000	330,049

**19 Capital Commitments and Contingencies**

<b>(a) Capital expenditure</b>	<b>£000</b>
In respect of contracts placed	335
	<u>335</u>
<b>(b) Lease commitments</b>	

Commitments for the following year under other leases are as follows:

	<b>Land &amp; Buildings £000</b>	<b>Other £000</b>	<b>Period Ended 31 Dec 2000 Total £000</b>
Expiring:			
Within one year	72	44	116
Between one and five years	-	48	48
Thereafter	-	-	-
	<u>72</u>	<u>92</u>	<u>164</u>

**20 Post Balance Sheet Event**

In the first quarter of 2001, a decision was taken to extend the economic life of the Hornsea asset to 2050. External engineering studies indicated that the operational age profile was significantly greater than had been originally thought. The extension was accounted for with effect from 1 January 2001. The effect of the life extension is to reduce depreciation by an estimated £1m per annum.

**21 Pensions and Post-Retirement Benefits**

The accounting for pensions and other post-retirement benefits is undertaken by BG Group plc. BG Group plc charges its subsidiary undertakings with an allocation of its total pension cost which is assessed in accordance with actuarial advice.

The majority of employees of BG Storage Limited participate in the Lattice Group Pension Scheme (the 'Scheme'), (formerly the BG Group Pension Scheme), which was formed as a result of the merger, on 1 April 2000, of the BG Staff and BG Corporation Pension Schemes in which these employees previously participated.

On the merger of the schemes, various benefit improvements were granted including a reduction in the employee contribution rate from 4% to 3% of pensionable pay. The minimum employer's contribution rate was also reduced to 3% from 4% of pensionable pay. The Scheme is a defined benefit scheme and, on demerger, Lattice Group plc has become the principal employer of the Scheme, which has been renamed the 'Lattice Group Pension Scheme'.

The Scheme is self-administered by its Trustees and funded to cover future pension liabilities in respect of service up to the balance sheet date.

It is subject to independent valuation 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 Scheme's assets, are expected to be sufficient to fund the benefits payable under the Scheme.

## **BG Storage Limited**

BG Storage Limited will continue to participate in the Scheme for approximately one year after the demerger and employees of BG Storage Limited will continue their membership of the Scheme without interruption over this participation period. BG Group plc will then set up a new pension scheme, under which members' benefits will be the same as they are currently under the Scheme.

The Trustees have agreed that the accrued rights of the active members employed by BG Storage Limited, will only be transferred to BG Group plc's new pension scheme if the individual concerned has consented in writing to the transfer. Deferred pensioners and pensioners whose last employment was with a company in BG Group plc will also be given the option of transferring their rights to BG Group plc's new pension scheme. A share of the assets of the Scheme proportionate to the past service liabilities of the transferring members will then be transferred to BG Group plc's new pension scheme.

Participating employers in BG Storage Limited will (subject to review) continue to pay contributions to the Scheme at the rate of 3% of pensionable pay until they cease to participate in the Scheme. After that, a suitable contribution rate for BG Group plc's new pension scheme will be determined.