

BRITISH GAS CONNECTIONS LIMITED
REGISTERED NUMBER: 3234745

DIRECTORS' REPORT AND ACCOUNTS
FOR THE YEAR ENDED
31 DECEMBER 1999



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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 1999.

Principal activities

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 1999 the Company incurred an operating loss of £415,000 (1998: £642,000 loss). The loss after interest and tax of £633,000 (1998: £694,000) was deducted from reserves. As at 31 December 1999 the Company had net liabilities of £1,576,000 (1998: £943,000).

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

Steady growth continued in 1999 with further investment in the design and installation of gas transportation networks. Looking forward to 2000, the Company will continue to focus on these core design and installation activities and consider options for product development in what is becoming an increasingly competitive market. 2000 will also see the development of processes which reflect the Company's responsibilities for completed gas networks as well as those under development.

Dividends

The Directors have been unable to recommend the payment of a dividend for the years ended 31 December 1999 and 31 December 1998 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 throughout the year:

Roger Nicholas Brownlow Wood
Christopher John Stern
Colin James MacMillan
David Philip Kendle

BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

Directors' interests

At no time did any Director still holding office at 31 December 1999 have any interest in the shares of the Company (1998: £nil), or any other company within the Centrica plc 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 1999 Annual Report and Accounts of Centrica plc.

The Directors with interests in ordinary shares of Centrica plc during 1999 (which include those of their families), who were holding office at the year end and for whom interests were not disclosed in the Annual Report and Accounts of Centrica plc, are as follows :

Interests in ordinary shares

	As at 31 December 1999	As at 31 December 1998
C J Macmillan	4,883	5,010
C J Stern	6,423	6,722
D P Kendle	5,588	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 1999	As at 31 December 1998
C J Macmillan	32,381	29,471
C J Stern	10,574	10,574
D P Kendle	28,027	23,802

Options over shares in Centrica plc granted in April 1997 were 46.4 pence per share, those granted in June 1998 were at 92.2 pence per share and those granted in December 1999 were at 127.8 pence per share under the terms of the Centrica plc's Savings Related Share Option Scheme.

BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

Long Term Incentive Scheme

	As at 31 December 1999	As at 31 December 1998
C J Macmillan	178,868	175,312
C J Stern	257,712	241,574
D P Kendle	107,610	104,096

Notional allocations of shares were made on 4 March 1997, 1 October 1997, 1 October 1998 and 7 October 1999 under the Centrica Long Term Incentive Scheme at base prices of 67.17 pence, 73.29 pence, 99.49 pence and 128.86 pence respectively. Figures given represent the maximum award possible if all total shareholder return performance criteria are met at the end of the performance period (three or four years) and shares would not be transferred to the individual until the expiry of the retention period (a further two years).

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 1999 (30 December) was 175.5 pence. The range during the year ended 31 December 1999 was 191 pence (high) and 108 pence (low).

Auditors

The Company has passed an elective resolution to dispense with the need to reappoint auditors annually. PricewaterhouseCoopers have expressed their willingness to continue as auditors of the Company.

Year 2000 and Euro Costs

By the end of 1999 the Company had achieved Year 2000 business readiness of all key systems. The associated costs were borne by British Gas Services Limited.

Detailed impact analysis has identified the areas that would require Euro conversion and the required lead times for the amendment of key systems. Plans continue to be 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.

BRITISH GAS CONNECTIONS LIMITED

DIRECTORS' REPORT (CONTINUED)

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.

By order of the Board

A handwritten signature in black ink, appearing to read 'R N B Wood', with a large, stylized initial 'R'.

R N B Wood
Director
18 October 2000

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 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 8 to 16, 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 financial statements on pages 8 to 16 which have been prepared under the historical cost convention and the accounting policies set out on pages 10 and 11.

Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 5, 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 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.

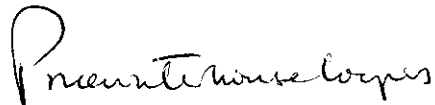
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement whether caused by fraud or other irregularity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

BRITISH GAS CONNECTIONS LIMITED

**REPORT OF THE AUDITORS TO THE SHAREHOLDER OF BRITISH GAS
CONNECTIONS LIMITED (CONTINUED)**

Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 December 1999 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
1 Embankment Place
London
WC2N 6RH

18 October 2000

BRITISH GAS CONNECTIONS LIMITED

PROFIT AND LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 1999

	Notes	1999 £000	1998 £000
Turnover	1	435	20
Net operating costs	2	(850)	(662)
Operating loss		(415)	(642)
Interest payable	4	(218)	(52)
Loss on ordinary activities before taxation		(633)	(694)
Taxation	5	-	-
Loss for the financial year	13	(633)	(694)

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

All activities relate to continuing operations.

The notes on pages 10 to 16 form part of these accounts.

BRITISH GAS CONNECTIONS LIMITED

BALANCE SHEET AS AT 31 DECEMBER 1999

	Notes	1999 £000	1998 £000
Fixed assets			
Tangible assets	6	<u>3,782</u>	<u>1,067</u>
Current assets			
Stocks	7	313	65
Debtors	8	278	-
Cash at bank and in hand		<u>-</u>	<u>10</u>
		591	75
Creditors (amounts falling due within one year)			
Borrowings	9	(11)	-
Other creditors	10	<u>(5,889)</u>	<u>(2,085)</u>
		<u>(5,900)</u>	<u>(2,085)</u>
Net current liabilities		<u>(5,309)</u>	<u>(2,010)</u>
Total assets less current liabilities		(1,527)	(943)
Provisions for liabilities and charges	11	<u>(49)</u>	<u>-</u>
Net liabilities		<u><u>(1,576)</u></u>	<u><u>(943)</u></u>
Capital and reserves			
Called up share capital	12	-	-
Profit and loss account	13	<u>(1,576)</u>	<u>(943)</u>
Total shareholder's deficit – equity interest		<u><u>(1,576)</u></u>	<u><u>(943)</u></u>

The accounts on pages 8 to 16 were approved by the Board of Directors on 18 October 2000 and were signed on its behalf by:



R N B Wood, Director

The notes on pages 10 to 16 form part of these accounts.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

1. Principal accounting policies

Accounting principles

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.

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.

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 (IT) 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.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

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 seconded 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.

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 has been a significant enhancement in existing assets in which case the costs are capitalised and depreciated in line with Company policy.

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.

2. Net operating costs

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

	Notes	1999 £000	1998 £000
Employee costs	(a)	839	621
Own work capitalised		(539)	(319)
Depreciation		138	1
Auditor's remuneration			
Statutory audit	(b)	-	-
Other operating charges		412	359
		<u>850</u>	<u>662</u>

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

(b) Auditors fees of £12,000 (1998: £5,000) were borne by British Gas Services Limited.

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

3. Directors and employees

a) Directors' remuneration and interests

During the year the Directors received no emoluments for their services as Directors of the Company (1998: £nil).

All the Directors were members of the Centrica Staff Pension Scheme throughout the year. This scheme is a funded, Inland Revenue approved, final salary occupational pension scheme.

b) Employee costs

	1999 £000	1998 £000
Wages and salaries	699	517
Social security costs	64	44
Other pension costs	76	60
	<u>839</u>	<u>621</u>

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.

c) Pensions

As at 31 December 1999 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 employer's contributions which, together with the specified contributions payable by the employees seconded to the Company and proceeds from the schemes' assets, is expected to be sufficient to fund the benefits payable under the schemes.

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 1999 are set out in the 1999 Annual Report and Accounts of Centrica plc. The contributions payable by the Company are calculated based upon the pension costs across the Group. The Company pension costs in 1999 were £76,000 (1998: £60,000). The balance sheet provision, representing the difference between the charge to the profit and loss account and the contributions paid, was £49,000 (1998: £nil).

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

4. Interest payable

	1999 £000	1998 £000
Interest payable on debt financing	<u>218</u>	<u>52</u>

5. Taxation

Consistent with the previous year, tax 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:

	1999 £000	1998 £000
Accelerated capital allowances	(93)	(34)
Other timing differences	<u>277</u>	<u>12</u>
	<u>184</u>	<u>(22)</u>

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

6. Tangible fixed assets

	Tangible assets £000
Cost	
As at 1 January 1999	1,068
Additions	<u>2,853</u>
As at 31 December 1999	<u>3,921</u>
Accumulated depreciation	
As at 1 January 1999	1
Charge for the year	<u>138</u>
As at 31 December 1999	<u>139</u>
Net book amount	
As at 31 December 1999	<u>3,782</u>
As at 31 December 1998	<u>1,067</u>

As at 31 December 1999 fixed assets comprised the installation of gas mains and meters, and office and information technology equipment.

7. Stocks

	1999 £000	1998 £000
Meter stocks	<u>313</u>	<u>65</u>

8. Debtors

	1999 £000	1998 £000
Amounts owed by Group undertakings	196	-
Other debtors	<u>82</u>	<u>-</u>
	<u>278</u>	<u>-</u>

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

9. Borrowings

	1999 £000	1998 £000
Amounts falling due within one year		
Bank overdrafts	<u>11</u>	<u>-</u>

10. Creditors: amounts falling due within one year

	1999 £000	1998 £000
Amounts owed to Group undertakings	5,833	2,082
Accruals and deferred income	<u>56</u>	<u>3</u>
	<u>5,889</u>	<u>2,085</u>

11. Provisions for liabilities and charges

	1 January 1999 £000	Profit and loss charge/ (credit) £000	Provision utilised £000	31 December 1999 £000
Pension costs	<u>-</u>	<u>49</u>	<u>-</u>	<u>49</u>

The pension provision represents the difference between the charge to the profit and loss account and the contributions paid to the pension schemes in respect of retirement pensions and other related benefits.

12. Called up share capital

	1999 and 1998 £000
Authorised	
1,000 ordinary shares of £1 each	<u>1</u>
Issued, allotted and fully paid	
2 ordinary shares of £1 each	<u>-</u>

BRITISH GAS CONNECTIONS LIMITED

NOTES TO THE ACCOUNTS

13. Reserves

	Profit and loss Account £000
As at 1 January 1999	(943)
Loss for the financial year	<u>(633)</u>
As at 31 December 1999	<u><u>(1,576)</u></u>

14. Movements in shareholder's deficit

	1999 £000	1998 £000
Loss for the financial year	(633)	(694)
Shareholder's deficit as at 1 January	<u>(943)</u>	<u>(249)</u>
Shareholder's deficit as at 31 December	<u><u>(1,576)</u></u>	<u><u>(943)</u></u>

15. Commitments and contingencies

As at 31 December 1999 the Company was contracted to complete the installation of gas mains and meters on over 650 sites. Costs to completion are estimated at £8.3 million.

16. Ultimate parent company

The Company is an indirect and 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 of Centrica plc.