

BRITISH GAS TRADING LIMITED

REPORT AND ACCOUNTS

FOR THE YEAR ENDED

31 DECEMBER 1998



REGISTERED NO: 3078711

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DIRECTORS' REPORT

The Directors submit their report and the audited accounts of British Gas Trading Limited (the "Company") for the year ended 31 December 1998.

Principal Activities

The principal activity of the Company is the supply of gas and electricity to residential, commercial and industrial customers.

Financial Results and Business Review

The results of British Gas Trading Limited for the year ended 31 December 1998 are set out on pages 6 to 21.

The Company recorded an operating loss on ordinary activities (before exceptional charges) of £137 million for the year ended 31 December 1998 (1997 £313 million). The operating loss was lower than 1997 principally due to improved margins in the non-domestic market.

British Gas Trading Limited incurred exceptional charges of £76 million (before taxation) for the year ended 31 December 1998 (1997 £608 million) in respect of the renegotiation of gas purchase contracts and Year 2000 business-readiness costs.

Dividends and transfer from reserves

The Directors do not recommend the payment of a dividend for the year ended 31 December 1998 (1997 £nil). In 1998 £197 million has been transferred from reserves (1997 £883 million).

Policy on the payment of creditors

The Company aims to pay all of its creditors in accordance with the policies set out below. Special contractual terms apply for gas supplies. For all other trade creditors, it is the Company's policy to:

- i) agree the terms of payment at the commencement 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 number of days of average daily purchases included in trade creditors at the year end was 42 (1997 34 days).

British Gas Trading Limited

Employees

The Company depends on the skills and commitment of its employees in order to achieve its long term objectives. Company staff at all levels are encouraged to make the fullest possible contribution to the success of the Company.

Through the use of company magazines and briefing sessions the Company is committed to effective employee communications. Formal communications with trade unions take place through regular meetings between representatives from the Company and trade unions. The Company has procedures for the timely and accurate communication of significant business issues to its employees.

The Company's recruitment, training and promotion policies have been developed to ensure equal opportunities for all employees regardless of gender, race or disability. All decisions are based on merit.

The Directors

The following served as Directors during the year:

R A Gardner (Chairman)

M R Alexander

M S Clare

Directors' interests

At no time did any Director still holding office on 31 December 1998 have any interest in the shares or debentures of the Company or any other company or associated company of the Centrica plc group except for interests in shares and options over shares of the ultimate parent company, Centrica plc, details of which can be found in the 1998 Annual Report and Accounts of Centrica plc.

There were no contracts of significance existing during or at the end of the financial period to which the Company, or any of its subsidiary and associated undertakings, is a party and in which any Director is or was materially interested.

Directors' insurance

The ultimate parent company has maintained insurance cover for all Directors and other officers against liabilities in relation to the Company.

Year 2000 and euro costs

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

By the end of 1998 business-readiness of all but a few of our key systems had been achieved. In 1999 work with our IT and service suppliers will be completed, comprehensive testing carried out and contingency plans put in place. The Company continues to play an active part in a cross-utility interest group and in the Government body "Action 2000" and also works closely with suppliers to ensure that they meet the Company's timetable.

During 1998 £14 million was expensed in addressing Year 2000 business-readiness, of which £12 million has been treated as an exceptional charge. This was in addition to the £3 million spent in 1997. During 1999 the Company expects to spend approximately £8 million, of which £0.3 million was committed as at 31 December 1998. The total cost over a three-year period is now expected to be £25 million.

British Gas Trading 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 being developed to enable us to amend our systems in the event that a decision is made in favour of UK adoption of the euro.

Auditors

Price Waterhouse and Coopers & Lybrand merged during the year to form PricewaterhouseCoopers. PricewaterhouseCoopers were appointed as auditors to the Company with effect from 1 July 1998. They have expressed their willingness to be reappointed as auditors of the Company.

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.

This report was approved by the Board on 31 March 1999.



By order of the Board
Anne Garrihy - Secretary
2 June 1999

British Gas Trading Limited
Registration Number: 3078711
Registered Office:
Charter Court
50 Windsor Road
Slough
Berkshire
SL1 2HA

**STATEMENT OF DIRECTORS' RESPONSIBILITIES
FOR PREPARING THE FINANCIAL STATEMENTS**

The Directors are required by the Companies Act 1985 to prepare financial statements for each financial year which give a true and fair view of the state of 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 financial statements on pages 6 to 21, 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 financial statements 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 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.

AUDITORS' REPORT TO THE MEMBERS OF BRITISH GAS TRADING LIMITED

We have audited the financial statements on pages 6 to 21 which have been prepared under the historical cost convention and the accounting policies 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.

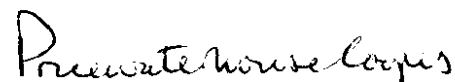
Basis of opinion

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
1 Embankment Place
London WC2N 6NN

2 June 1999

PROFIT AND LOSS ACCOUNT

For the year ended 31 December 1998

| | Notes | 1998 £000 | 1997 £000 |
|--|-------|--------------------|--------------|
| Turnover | 2 | 6,327,072 | 6,813,751 |
| Cost of sales - pre exceptional charges | | (5,724,788) | (6,400,408) |
| - exceptional charges : | 5 | | |
| Sales contract loss provision | | - | (35,000) |
| Renegotiation of gas purchase contracts | | (63,308) | (573,346) |
| Cost of sales including exceptional charges | | (5,788,096) | (7,008,754) |
| Gross profit/(loss) | | 538,976 | (195,003) |
| Administrative expenses - pre exceptional charge | | (739,475) | (726,204) |
| - exceptional charge : | 5 | | |
| Year 2000 costs | | (12,204) | - |
| Administrative expenses including exceptional charge | | (751,679) | (726,204) |
| Operating loss | 3 | (212,703) | (921,207) |
| Loss on ordinary activities | | (212,703) | (921,207) |
| Net interest and investment income | 6 | 16,120 | 37,899 |
| Loss on ordinary activities before taxation | | (196,583) | (883,308) |
| Tax on loss on ordinary activities | 7 | - | - |
| Loss on ordinary activities after taxation and for the financial year | 16 | (196,583) | (883,308) |

All results are due solely to continuing operations.

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

A statement of movements in shareholders' funds is shown in note 17.

The notes on pages 8 to 21 form part of these financial statements.

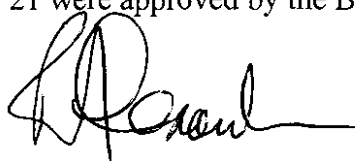
British Gas Trading Limited

BALANCE SHEET

As at 31 December

| | Notes | 1998 £000 | 1997 £000 |
|---|-------|-------------------------|-------------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 120,699 | 95,596 |
| Investments | 9 | 1,247,162 | 1,247,211 |
| | | <u>1,367,861</u> | <u>1,342,807</u> |
| Current assets | | | |
| Stocks | 10 | 82,179 | 119,283 |
| Debtors (amounts falling due within one year) | 11 | 1,250,464 | 1,834,050 |
| Debtors (amounts falling due after more than one year) | 11 | 169,839 | 162,901 |
| Cash at bank and in hand | | 1,930 | 22,071 |
| | | <u>1,504,412</u> | <u>2,138,305</u> |
| Creditors (amounts falling due within one year) | | | |
| Borrowings | 12 | (100) | (189) |
| Other creditors | 13 | (1,348,414) | (1,784,634) |
| | | <u>(1,348,514)</u> | <u>(1,784,823)</u> |
| Net current assets | | <u>155,898</u> | <u>353,482</u> |
| Total assets less current liabilities | | <u>1,523,759</u> | <u>1,696,289</u> |
| Creditors (amounts falling due after more than one year) | | | |
| Borrowings | 12 | (285) | (1,305) |
| Other creditors | 13 | (6,291) | (1,351) |
| | | <u>(6,576)</u> | <u>(2,656)</u> |
| Provisions for liabilities and charges | 14 | (284,316) | (264,183) |
| Net assets | | <u><u>1,232,867</u></u> | <u><u>1,429,450</u></u> |
| Capital and reserves - equity interests | | | |
| Called up share capital | 15 | 800,000 | 800,000 |
| Share premium | 16 | 447,162 | 447,162 |
| Profit and loss account | 16 | (14,295) | 182,288 |
| Shareholders' funds | 17 | <u><u>1,232,867</u></u> | <u><u>1,429,450</u></u> |

The accounts on pages 6 to 21 were approved by the Board of Directors on 2 June 1999 and were signed on its behalf by:



M Alexander - Director

The notes on pages 8 to 21 form part of these financial statements.

NOTES TO THE ACCOUNTS

1 Principal accounting policies

a) Basis of preparation

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

b) Exemptions

The Company is a wholly owned subsidiary undertaking of GB Gas Holdings Limited which is a wholly owned subsidiary undertaking of Centrica plc. The Company has taken advantage of the exemptions within Financial Reporting Standard No 1 "Cash Flow Statements" from presenting a cash flow statement; within Financial Reporting Standard No 2 "Accounting for Subsidiary Undertakings" from consolidating its subsidiary undertakings and incorporating the results of its share of associated undertakings; and within Financial Reporting Standard No 8 "Related Party Disclosures" from disclosure of transactions with other group companies.

c) Turnover

Turnover comprises the value of energy supplied and includes an assessment of supplies to customers between the date of the last meter reading and the period end ('unread'). Unread gas is estimated for each individual customer based on seasonal/temperature profiles.

d) Long Term Incentive Scheme (LTIS)

The cost of potential share awards under the Centrica plc group's LTIS is charged to the profit and loss account over the period to which the performance criteria of each allocation relates.

e) Tangible fixed assets

Tangible fixed assets are stated at historic cost less accumulated depreciation. The tangible fixed assets are depreciated on a straight-line basis at rates sufficient to write off the cost, less estimated residual values of individual assets over their estimated useful lives. It is company policy to capitalise externally sourced software and related software development expenditure. The depreciation periods for the principal categories of assets are as follows:

| | |
|--|---------------|
| Plant and Machinery | 5 to 20 years |
| Motor vehicles, office and IT equipment | 5 to 6 years |
| Software and related development expenditure | 5 years |

Assets held under finance leases are depreciated over the shorter of the lease term or their useful economic life.

f) Leases

Assets held under finance leases are capitalised and included in tangible fixed assets. The obligations related to finance leases, net of finance charges in respect of future periods, are included within borrowings. The interest element of the rental obligation is allocated to accounting periods during the lease term to reflect the constant rate of interest on the remaining balance of the obligation for each accounting period. Rentals under operating leases are charged to the profit and loss account as incurred.

g) Fixed asset investments

Fixed asset investments are included in the balance sheet at the lower of cost or directors' valuation.

h) Stocks

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

i) Take or Pay contracts

Where payments are made to external suppliers under take or pay obligations for gas not taken (see note 19(d)), they are treated as prepayments and are included within debtors. Where necessary, a provision is made against these prepayments which represents the Directors' estimate of the difference between the payment made for gas not taken and the estimated net realisable value of that gas when taken.

j) Long-term sales contracts

Provision is made for the net present value using a risk free discount rate, of any expected losses on long-term gas sales contracts. The provision is based on the difference between the contracted sales price and the expected weighted average cost of gas.

k) Deferred taxation

Deferred taxation, in respect of accelerated capital allowances and other timing differences, is provided only to the extent that it is probable that a liability or asset will crystallise.

l) Pensions

The cost of providing retirement pensions and related benefits is charged to the profit and loss account over the periods benefiting from employees' service. The difference between the charge to the profit and loss account and the contributions paid to the Pension Schemes is shown as a provision in the balance sheet. 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.

2 Segmental analysis

Turnover relates to the principal activity of the business and arose wholly in the United Kingdom, of which £13 million (1997 £nil) related to exports to the rest of Europe.

3 Operating loss - continuing operations

Operating loss is stated after charging:

| | Year to 31 December 1998 £000 | Year to 31 December 1997 £000 |
|--|--|--|
| Depreciation: | | |
| Finance leases | 587 | 973 |
| Other | 22,851 | 15,365 |
| Lease rentals: | | |
| Other assets | 10,403 | 9,239 |
| Profit/(loss) on sale of tangible fixed assets | 383 | (3) |
| Professional fees: | | |
| Auditor's remuneration: | | |
| Statutory audit | 344 | 368 |
| Other services | 1,712 | 132 |

4 Directors and employees

a) Directors' emoluments

Roy Gardner and Mark Clare received no emoluments in respect of their services to the Company. The emoluments of Mike Alexander, as the highest and only paid director, are fully disclosed in the Centrica plc 1998 Annual Report and in aggregate were £292,649 (1997 £276,922).

Retirement benefits are accruing to three directors under a defined benefit pension scheme. The accrued pension of the highest paid director as at 31 December 1998 was £83,700.

b) Employee costs

| | Year to 31 December 1998 £000 | Year to 31 December 1997 £000 |
|--------------------------------|--|--|
| Wages and salaries | 113,320 | 103,024 |
| Social security costs | 10,041 | 8,825 |
| Other pension costs | 11,868 | 7,330 |
| Long Term Incentive Scheme | 1,496 | 900 |
| Employee Profit Sharing Scheme | 3,075 | 1,710 |
| Redundancy costs | 888 | 4,303 |
| | 140,688 | 126,092 |

c) Employee numbers during the year

The average number of employees, all employed in the United Kingdom, during the year was 5,853 compared to 4,833 for 1997.

5 Exceptional charges

Contract renegotiations

The Company has renegotiated certain long-term 'Take or Pay' contracts which potentially would have resulted in commitments to pay for gas that would be excess to requirements and/or at prices above likely market rates. These renegotiations resulted in exceptional charges, representing the net present value of payments, due to the suppliers as consideration for the renegotiations, of £63 million (1997 £573 million). Unpaid elements of the 1997 and 1998 charges amounting to £54 million were included in creditors due within one year (£43 million relating to 1997 charges and £11 million relating to 1998 charges) and £127 million (after discounting adjustments) was included within provisions (which all related to 1997 charges). The amount included in provisions represents the net present value of the estimated payments due in periods between the years 2002 and 2008.

Sales contract loss provisions

The exceptional charge of £35 million in 1997 was made to provide for losses expected to arise from certain long-term sales contracts. Provision was made for the net present value, using a risk-free discount rate, of expected losses based on the difference between sales price and the expected weighted average cost of gas.

Year 2000

The Company incurred and paid £14 million (1997 £3 million) on Year 2000 computer systems business-readiness preparations, of which £12 million (1997 £nil) represented bought-in services, which have been treated as exceptional.

6 Net interest and investment income

| | Year to 31 December 1998 £000 | Year to 31 December 1997 £000 |
|---|--|--|
| Interest payable on bank loans and overdrafts | (561) | (632) |
| Interest payable to group companies | (306) | - |
| Finance lease charges | (168) | (153) |
| Notional interest arising on discounted items | (18,500) | (3,000) |
| Interest receivable | 35,655 | 41,684 |
| | <u>16,120</u> | <u>37,899</u> |

7 Taxation

The Company had a tax loss for the year (1997: Loss). Part of the loss for this year will be surrendered to group companies for nil consideration.

8 Tangible fixed assets

| | Plant and machinery £000 | Motor vehicles, office and IT equipment £000 | Total £000 |
|---------------------------------|--------------------------------|--|-----------------|
| Cost | | | |
| As at 1 January 1998 | 29,025 | 130,650 | 159,675 |
| Additions | 3,532 | 48,844 | 52,376 |
| Disposals | (1,353) | (5,806) | (7,159) |
| As at 31 December 1998 | 31,204 | 173,688 | 204,892 |
| Accumulated depreciation | | | |
| As at 1 January 1998 | (9,962) | (54,117) | (64,079) |
| Charge for the year | (4,084) | (19,354) | (23,438) |
| Disposals | 532 | 2,792 | 3,324 |
| As at 31 December 1998 | (13,514) | (70,679) | (84,193) |
| Net book value | | | |
| As at 31 December 1997 | 19,063 | 76,533 | 95,596 |
| As at 31 December 1998 | 17,690 | 103,009 | 120,699 |

The historic cost of assets held under finance leases as at 31 December 1998 was £1,742,040 (1997 £2,877,791). The related accumulated depreciation as at 31 December 1998 was £1,198,836 (1997 £1,070,198). All assets held under finance leases were motor vehicles.

9 Fixed asset investments

| | Shares in group undertakings £000 | Shares in associated undertakings £000 | Total £000 |
|---------------------------------|--|---|------------------|
| As at 1 January 1998 | 1,247,162 | 49 | 1,247,211 |
| Transfer to a group undertaking | - | (49) | (49) |
| As at 31 December 1998 | 1,247,162 | - | 1,247,162 |

As at 31 December 1998 the Company had the following interest in the issued share capital of the principal subsidiary undertaking listed below:

| Subsidiary undertaking | Business | Country of incorporation | Proportion of nominal value of shares held |
|-------------------------------|-------------------|-----------------------------|--|
| Hydrocarbon Resources Limited | Gas Production | United Kingdom | 100% |

10 Stocks

| | 1998 £000 | 1997 £000 |
|-------------------------------------|---------------|----------------|
| Gas in storage | 81,562 | 118,690 |
| Other raw materials and consumables | 581 | 286 |
| Work in progress | - | 26 |
| Finished goods and goods for resale | 36 | 281 |
| | 82,179 | 119,283 |

11 Debtors

| | As at 31 December 1998 | | As at 31 December 1997 | |
|--------------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| | Within one year | After more than one year | Within one year | After more than one year |
| Amounts falling due | £000 | £000 | £000 | £000 |
| Trade debtors | 182,992 | - | 440,418 | - |
| Accrued energy income (a) | 623,155 | - | 763,729 | - |
| Amounts owed by group undertakings | 6,023 | - | 18,747 | - |
| Prepayments and other accrued income | 289,133 | 157,555 | 417,025 | 162,901 |
| Other debtors | 149,161 | 12,284 | 194,131 | - |
| | 1,250,464 | 169,839 | 1,834,050 | 162,901 |

(a) Accrued energy income is an estimate of money due from customers for energy consumed but not yet billed.

12 Borrowings

| | As at 31 December 1998 | | As at 31 December 1997 | |
|----------------------------------|------------------------|--------------------------|------------------------|--------------------------|
| | Within one year | After more than one year | Within one year | After more than one year |
| Amounts falling due | £000 | £000 | £000 | £000 |
| Obligations under finance leases | 100 | 285 | 189 | 1,305 |

Finance lease obligations are repayable as follows:

| | 1998 | 1997 |
|----------------------------|------------|--------------|
| | £000 | £000 |
| Within one year | 100 | 189 |
| Between one and two years | 95 | 434 |
| Between two and five years | 190 | 755 |
| After five years | - | 116 |
| | 385 | 1,494 |

13 Other creditors

| Amounts falling due | As at 31 December 1998 | | As at 31 December 1997 | |
|------------------------------------|-------------------------|----------------------------------|-------------------------|----------------------------------|
| | Within one year £000 | After more than one year £000 | Within one year £000 | After more than one year £000 |
| Gas levy payable | - | - | 44,024 | - |
| Trade creditors | 385,162 | - | 386,058 | - |
| Amounts owed to group undertakings | 753,831 | - | 993,823 | - |
| Taxation and social security | 3,174 | - | 2,757 | - |
| Accruals and deferred income | 104,307 | 6,291 | 75,718 | 1,351 |
| Other creditors | 101,940 | - | 282,254 | - |
| | 1,348,414 | 6,291 | 1,784,634 | 1,351 |

14 Provisions for liabilities and charges

| | As at 1 Jan 1998 £000 | Utilised £000 | Profit and loss charge £000 | As at 31 Dec 1998 £ 000 |
|--|-----------------------------|------------------|-----------------------------------|-------------------------------|
| Pension costs | 3,283 | - | 7,692 | 10,975 |
| Long term incentive scheme | 900 | - | 1,641 | 2,541 |
| Sales contract losses and renegotiation provisions | 260,000 | (7,700) | 18,500 | 270,800 |
| | 264,183 | (7,700) | 27,833 | 284,316 |

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

| | As at 31 December 1998 £000 | As at 31 December 1997 £000 |
|--|-----------------------------------|-----------------------------------|
| Accelerated capital allowances | 2,198 | 15,463 |
| Other timing differences, including losses carried forward | (320,913) | (327,569) |
| | (318,715) | (312,106) |

15 Called up share capital

| | 1998 £000 | 1997 £000 |
|--|------------------|------------------|
| Authorised | | |
| 1,800,000,100 ordinary shares of £1 each | <u>1,800,000</u> | <u>1,800,000</u> |
| Issued, allotted and fully paid | | |
| 800,000,100 ordinary shares of £1 each | <u>800,000</u> | <u>800,000</u> |

16 Share capital and reserves

| | Share capital £000 | Share premium account £000 | Profit & loss account £000 | Total shareholders' funds £000 |
|---|-----------------------|-------------------------------------|----------------------------------|---|
| Balance at 1 January 1998 | 800,000 | 447,162 | 182,288 | 1,429,450 |
| Transfer to profit and loss account for the year | - | - | (196,583) | (196,583) |
| Balance as at 31 December 1998 | <u>800,000</u> | <u>447,162</u> | <u>(14,295)</u> | <u>1,232,867</u> |

17 Reconciliation of movements in shareholders' funds

| | 1998 £000 | 1997 £000 |
|------------------------------------|------------------|------------------|
| Opening shareholders' funds | 1,429,450 | 2,312,758 |
| Loss for the period | (196,583) | (883,308) |
| Closing shareholders' funds | 1,232,867 | 1,429,450 |

18 Pensions

Substantially all of the Company's employees as at 31 December 1998 were members of either the Centrica Staff Pension Scheme (staff and management employees) or the Centrica Engineers Pension Scheme (engineers). These Schemes are 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 and proceeds from the Schemes' assets, are expected to be sufficient to fund the benefits payable under the Schemes.

The Company's employees participated in British Gas Schemes until 31 March 1998. From 1 April 1998 the Company's employees and a small number of pensioners and deferred pensioners joined either 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, proportional to the share of the total accrued British Gas Schemes' liabilities as at 31 March 1998 that were attributable to Centrica employees, or former employees, electing to transfer.

The long-term assumptions applied to calculate the Company's pension cost for 1998 are set out in the 1998 Annual Report of Centrica plc. The contributions payable by the company are based upon the pension cost across the Centrica group. The Company's pension cost in 1998 was £11,868,000 (1997 £7,330,000), £4,176,000 contributions paid to the Pension Schemes and £7,692,000 increase in the provision.

19 Commitments and contingencies

a) Capital expenditure

Authorised future capital expenditure as at 31 December 1998 was £1,272,000 (1997 £2,777,000) for which contracts have been placed.

b) Lease commitments

As at 31 December 1998 commitments for the following year under operating leases were as follows (there were no lease commitments relating to land and buildings):

| | 1998 £000 | 1997 £000 |
|----------------------------|--------------|---------------|
| Expiring: | | |
| Within one year | - | 107 |
| Between one and five years | 6,990 | 10,306 |
| | <u>6,990</u> | <u>10,413</u> |

There are no commitments under finance leases entered into, but for which inception occurs after 31 December 1998 (1997 £nil).

c) Bank guarantee

Centrica plc has a revolving credit facility of up to £1 billion with various financial institutions. The Company was one of the guarantors of that facility, such that it has guaranteed, jointly and severally, to pay on demand any sum which Centrica plc does not pay in accordance with the facility agreement.

d) Gas purchase contracts

The Company is contracted to purchase 97 billion therms of gas (1997 108 billion therms) under long-term contracts at prices, mainly determined by various baskets of indices, which may exceed market prices from time to time. In the face of full competition in the market for gas, the Company's exposure has been reduced by the renegotiation of lower volumes and/or prices under certain contracts and by entering into long-term sales contracts. Since January 1996 these actions, affecting 58 billion therms, have been achieved at a net present cost to the Company of £1,376 million. Whilst there remains much uncertainty regarding future prices and market share, in the opinion of the Directors, no general provision for onerous contract losses is required.

The total volume of gas to be taken under these long-term contracts depends upon a number of factors, including the actual reserves of gas that are eventually determined to be extractable on an economic basis. Based upon the minimum volume of gas that the Company is contracted to pay for in any year, the profile of the contract commitments, after taking account of the renegotiations referred to above (excluding purchases from Hydrocarbon Resources Ltd), is estimated as follows:

British Gas Trading Limited

| | 1998 million therms | 1997 million therms |
|-------------------|---------------------------|---------------------------|
| Within five years | 48,800 | 55,400 |
| After five years | 48,300 | 52,800 |
| | <u>97,100</u> | <u>108,200</u> |

The Directors do not consider it feasible to estimate the actual future cost of committed gas purchases as the Company's external weighted average cost of gas ("WACOG") is subject to indexation. As a consequence of the price renegotiations referred to above, the Company's external WACOG (excluding purchases from Hydrocarbon Resources Limited) reduced to 16 pence per therm for the three month period ended 31 December 1998. Applying this value would imply a Company financial commitment of approximately £16 billion (1997 £21 billion based on 19 pence per therm for the year ended 31 December 1997) analysed as follows:

| | 1998 £m | 1997 £m |
|---|---------------|---------------|
| Future gas purchase commitments are as follows: | | |
| Within one year | 1,900 | 2,700 |
| Between one and five years | 5,900 | 7,900 |
| After five years | 7,700 | 10,400 |
| | <u>15,500</u> | <u>21,000</u> |

e) Litigation

Arising out of its normal activities, from time to time, the Company has a number of outstanding disputes, including those with gas producers. After taking account of provisions made, any remaining expected losses are not considered material.

20 Financial Instruments

a) Foreign exchange risk

Foreign exchange risk arises from exposure to the US dollar/sterling exchange rate within long-term gas purchase contracts. The Company's policy is to hedge part of this risk by the purchase of forward rate contracts. As at 31 December 1998, losses of £16 million (1997 £9 million) have been deferred from recognition in the profit and loss account, of which £3 million are expected to be expensed in 1999. A net loss of £1 million was charged to the profit and loss account during 1998. Realised deferred losses as at 31 December 1998 of £15 million (1997 £nil) are included within prepayments on the balance sheet, and £1 million (1997 £9 million) of unrealised losses are off-balance sheet.

b) Fair values of financial assets and liabilities

For debtors, creditors, cash and debt, book values as at 31 December 1997 and 1998 approximated to fair values.

21 Ultimate parent company

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.