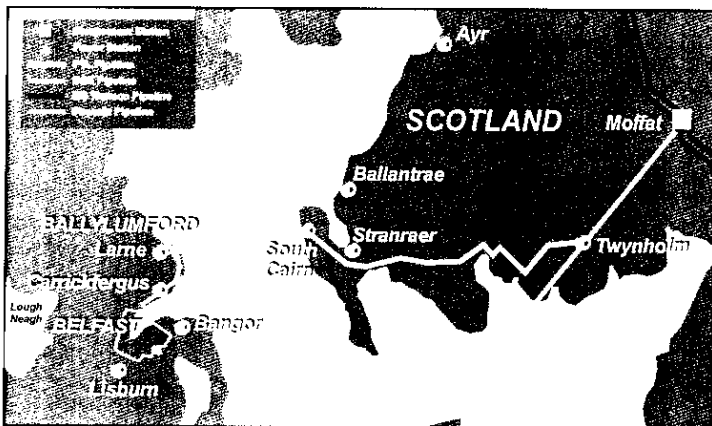


PREMIER TRANSMISSION LIMITED

Registered Number: NI26421

premier
TRANSMISSION



**DIRECTORS' REPORT
AND ACCOUNTS**

For the year ended 31 December 2002



PREMIER TRANSMISSION LIMITED

Registered Number: NI 26421

DIRECTORS' REPORT AND ACCOUNTS

For the year ended 31 December 2002

PREMIER TRANSMISSION LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

The directors submit their report and the audited accounts of the Company for the year ended 31 December 2002

PRINCIPAL ACTIVITIES

The Company owns and operates a gas pipeline between Scotland and Northern Ireland.

RESULTS AND DIVIDENDS FOR THE YEAR

During the year the Company made a profit after interest and tax of £3,374,000 (year to 31 December 2001 profit of £4,321,000). An interim dividend of £4,500,000 was paid during the year (2001 £4,500,000). The Board do not propose to pay a final dividend for 2002 (2001 nil). The loss transferred to reserves for 2002 was £1,126,000 (2001 £179,000).

POLITICAL AND CHARITABLE DONATIONS

Charitable donations of £950 were made during the year (2001 £850).

No political donations were made during the year (2001 nil).

DIRECTORS

The directors during the year were as follows:

	Date of Appointment	Date of Resignation
L.W. Dawson		9 th May 2002
A.J. DiBrita		19 th March 2002
S.F. Ellis		18 th March 2002
J.A. Rooney (Chairman)		
M.A. Jamieson		8 th January 2002
A.C.D.S McCallum		4 th March 2002
S.J. Surrall		18 th September 2002
R.T. Michie	19 th March 2002	
H.N. Nichols	25 th June 2002	
W.H. Adamson	18 th September 2002	

The directors have no beneficial interest in the shares of Premier Transmission Limited.

PREMIER TRANSMISSION LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

SECRETARY

The Company secretaries during the year were as follows:

	Date of Appointment	Date of Resignation
M. Edwards (Joint Secretary)		25 th October 2002
C.S. Inman (Joint Secretary)		

PREMIER TRANSMISSION LIMITED
DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2002

DIRECTORS' RESPONSIBILITY STATEMENT

The directors are required by the Companies (Northern Ireland) Order 1986 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 17, the Company has used appropriate historical cost accounting policies, consistently applied and supported by reasonable and prudent judgements and estimates, that all accounting standards which are applicable have been followed and that the accounts have been prepared on the going concern basis.

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 (Northern Ireland) Order 1986.

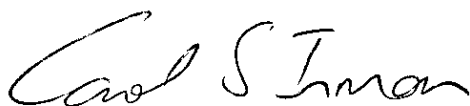
The directors have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

Following the conversion of our auditors PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 25 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

By order of the Board.



C.S. Inman
Company Secretary

24 June 2003

Registered Office:
Ballylumford Power Station
Islandmagee
Larne
County Antrim
BT40 3RS

PREMIER TRANSMISSION LIMITED
REPORT OF THE AUDITORS TO THE MEMBERS OF PREMIER
TRANSMISSION LIMITED

Independent Auditors' report to the members of Premier Transmission Ltd

We have audited the financial statements which comprise the profit and loss account, the statement of total recognised gains and losses, the balance sheet, the cash flow statement and the related notes which have been prepared under the historical cost convention and the accounting policies set out in the statement of accounting policies.

Respective responsibilities of Directors and Auditors

The directors' responsibilities for preparing the financial in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom Auditing Standards issued by the Auditing Practices Board. This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Article 243 of the Companies (Northern Ireland) Order 1986 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or in to whose hands it may come save where expressly agreed by our prior consent in writing.

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 (Northern Ireland) Order 1986. We also report to you if, in our opinion, the director's 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 director's 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. The other information comprises only the director's report.

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

PREMIER TRANSMISSION LIMITED
REPORT OF THE AUDITORS TO THE MEMBERS OF PREMIER
TRANSMISSION LIMITED

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 affairs of the company at 31 December 2002 and of the loss and cash flows of the Company for the year then ended and have been properly prepared in accordance with the Companies (Northern Ireland) Order 1986.

PricewaterhouseCoopers LLP

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

24 June 2003

PREMIER TRANSMISSION LIMITED
PROFIT & LOSS ACCOUNT FOR THE YEAR ENDED 31 DECEMBER 2002

	Note	2002 £'000	Restated 2001 £'000
TURNOVER		18,309	18,751
Operating Costs		(8,961)	(9,274)
OPERATING PROFIT	2	<u>9,348</u>	<u>9,477</u>
Interest Receivable & Other Income		185	416
Interest Payable	4	(2,969)	(3,591)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION		<u>6,564</u>	<u>6,302</u>
Taxation	5	(3,190)	(1,981)
PROFIT ON ORDINARY ACTIVITIES AFTER TAXATION		<u>3,374</u>	<u>4,321</u>
DIVIDEND – PAID	6	(4,500)	(4,500)
RETAINED (LOSS) / FOR THE YEAR	13, 14	<u>(1,126)</u>	<u>(179)</u>

The loss for the period is derived solely from continuing activities.

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES FOR THE YEAR ENDED 31 DECEMBER 2002

		2002 £'000	Restated 2001 £'000
Profit for the year		3,374	4,321
Prior year adjustment	13	(7,108)	-
Total gains and losses recognised since last annual report		<u>(3,734)</u>	<u>4,321</u>

There is no difference between the profit on ordinary activities before taxation and the retained loss for the year stated above and their historical cost equivalents.

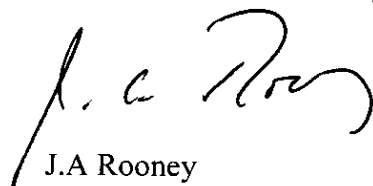
The notes on pages 9 to 17 form part of these accounts.

PREMIER TRANSMISSION LIMITED
BALANCE SHEET AS AT 31 DECEMBER 2002

	Note	2002 £'000	Restated 2001 £'000
TANGIBLE FIXED ASSETS	7	115,394	118,530
CURRENT ASSETS			
Debtors	8	5,022	5,362
Cash at Bank and in Hand		2,398	3,046
CREDITORS (amounts falling due within one year)	9	(4,525)	(6,012)
NET CURRENT ASSETS		<u>2,895</u>	<u>2,396</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		<u>118,289</u>	<u>120,926</u>
CREDITORS (amounts falling due after more than one year)	10	(89,905)	(94,606)
PROVISIONS FOR LIABILITIES AND CHARGES	11	(10,298)	(7,108)
NET ASSETS		<u>18,086</u>	<u>19,212</u>
 CAPITAL AND RESERVES			
Share Capital	12	861	861
Share Premium	14	14,012	14,012
Profit and Loss Account	14	3,213	4,339
TOTAL SHAREHOLDERS' FUNDS	13	<u>18,086</u>	<u>19,212</u>

The notes on pages 9 to 17 form part of these accounts.

The financial statements on pages 6 to 17 were approved by the Board of directors on 24 June 2003 and were signed on behalf by:


J.A Rooney
Chairman

PREMIER TRANSMISSION LIMITED
CASH FLOW STATEMENT FOR YEAR ENDED 31 DECEMBER 2002

	Note	2002 £'000	2001 £'000
NET CASH INFLOW FROM OPERATING ACTIVITIES	15	10,697	11,073
RETURNS ON INVESTMENT AND SERVICING OF FINANCE			
Interest Paid		(2,997)	(3,645)
Interest Received		200	396
CAPITAL EXPENDITURE			
Payments to Acquire Tangible Fixed Assets		(441)	(1,655)
European Regional Development Grant Received		353	293
EQUITY DIVIDENDS PAID		(4,500)	(6,000)
FINANCING ACTIVITIES			
Repayment of Bank Loan		(3,960)	(3,600)
NET (DECREASE)/INCREASE IN CASH IN THE YEAR		<u>(648)</u>	<u>(3,138)</u>
 RECONCILIATION TO NET (DEBT)/CASH			
Net Debt at 1 January		(51,674)	(52,136)
Net (Decrease)		(648)	(3,138)
Decrease in Bank Loan		3,960	3,600
Net Debt at 31 December		<u>(48,362)</u>	<u>(51,674)</u>

The notes on pages 9 to 17 form part of these accounts.

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

1) ACCOUNTING POLICIES

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

Basis of Accounting

The accounts have been prepared in accordance with the historical cost convention.

Turnover

Turnover comprises transportation charges levied on shippers for the use of the pipeline, and includes operating costs incurred by the Company recharged at nil mark-up.

Deferred Taxation

In December 2000 the Accounting Standards Board issued FRS 19, 'Deferred Tax'. Prior to this, deferred taxation, in respect of accelerated capital allowances and other timing differences was provided, using the liability method, only to the extent that it was probable that a liability or asset would crystallise in the foreseeable future. On 1 January 2002 the Company adopted FRS 19 and accordingly deferred taxation is made for deferred tax liabilities and assets, using full provision accounting, otherwise known as the incremental liability method, when an event has taken place by the balance sheet date which gives rise to an increased or reduced tax liability in the future in accordance with FRS 19. Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis. The adoption of this new standard represents a change in accounting policy and the comparative figures have been adjusted accordingly.

The effect of the change in accounting policy is to increase tax on profits by £3,190,000 (2001 £1,981,000) and to decrease profit for the financial year by £3,190,000 (2001 £1,981,000).

Tangible Fixed Assets

Costs incurred relating to the development of the pipeline are capitalised and treated as Fixed Assets. The costs of the pipeline are depreciated over its expected useful life of 43 years. Additions in the year are depreciated from the following year.

Grants

The European Regional Development ("ERD") Grant received for the pipeline is treated as deferred income and is being amortised over the expected useful life of the pipeline.

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

2) OPERATING PROFIT

This is stated after charging/(crediting) the following items:

	2002	2001
	£'000	£'000
Depreciated of owned assets	3,136	3,131
Amortisation of ERD Grant	(1,084)	(1,077)
Auditors' Remuneration		
Audit services	9	9
Non-audit services	13	-

The Company has no employees (2001 nil). BG Group plc makes charges for the service of their employees engaged on the Company's business.

3) DIRECTORS' EMOLUMENTS

	2002	2001
	£	£
Directors' emoluments	34,712	74,369

Directors' emoluments represent total amounts recharged by BG Group in connection with services provided to the Company.

None of the directors received any emoluments from the Company in respect of their services during the year ended 31 December 2002 (2001 nil).

4) INTEREST PAYABLE

	2002	2001
	£'000	£'000
On Bank Loans/Overdrafts	2,969	3,591

5) TAXATION

	2002	Restated 2001
	£'000	£'000
Current Tax		
UK Corporation tax at 30% (2001 30%)	1,108	608
Group Relief at 30%	(1,108)	(608)
Total Current Tax charge/(credit)	<u>-</u>	<u>-</u>

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

5) TAXATION (Continued)

	2002	Restated
	£'000	2001
		£'000
Deferred Tax		
Deferred Corporation Tax at 30%	1,842	1,981
Deferred Tax under/(over) provision in respect of previous periods	1,348	-
Total Deferred Tax charge/(credit)	<u>3,190</u>	<u>1,981</u>
Total Tax charge/(credit)	<u>3,190</u>	<u>1,981</u>
Proof for FRS 19 purposes		
Profit on ordinary activities before tax	6,564	6,302
Profit on ordinary activities at 30% (2001 30%)	1,969	1,891
Effects of:		
Capital allowances in excess of depreciation	(537)	(995)
Other timing difference	(325)	(323)
Expenses not deductible for tax purposes	1	35
Consideration received for losses group relieved in previous periods	(1,108)	(608)
Current tax charge/(credit) for the period	<u>-</u>	<u>-</u>

6) DIVIDEND

Interim dividends of £4,500,000 was paid during the year (2001 £4,500,000).
The Board do not propose to pay a final dividend for 2002 (2001 nil).

7) TANGIBLE FIXED ASSETS

	Pipeline
	£'000
Cost	
As at 1 January 2002	133,174
Additions	-
As at 31 December 2002	<u>133,174</u>
Depreciation	
As at 1 January 2002	14,644
Charge for the year	3,136
As at 31 December 2002	<u>17,780</u>
Net Book Value	
31 December 2002	<u>115,394</u>
31 December 2001	<u>118,530</u>

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

8) DEBTORS

	2002	2001
	£'000	£'000
Trade debtors	1,964	2,612
Prepayments and accrued income	3,058	2,750
	<u>5,022</u>	<u>5,362</u>

9) CREDITORS (amounts falling due within one year)

	2002	2001
	£'000	£'000
Trade creditors	1,102	1,071
Other creditors	187	461
Accruals	2,142	3,396
Deferred income (ERD grant)	1,094	1,084
	<u>4,525</u>	<u>6,012</u>

10) CREDITORS (amounts falling due after more than one year)

	2002	2001
	£'000	£'000
Long-Term Loan	(50,760)	(54,720)
Deferred Income	(39,145)	(39,886)
	<u>(89,905)</u>	<u>(94,606)</u>

Long-Term Loan

On 24 November 1998, the Company received a loan of £60m from a consortium of commercial banks (Industrial Bank of Japan, Royal Bank of Scotland and Royal Bank of Canada).

Under the terms of the agreement interest is payable at LIBOR plus a margin of 0.70% (70 basis points) up to November 2005, and LIBOR plus 0.80% (80 basis points) thereafter. However under two separate hedging agreements, interest on 50% of the loan is fixed at a rate of 6.38% until May 2006.

The loan is repayable in 23 instalments at 6 monthly intervals commencing 13 November 2000. The maturity profile of the loan is as follows:

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

10) CREDITORS (amounts falling due after more than one year) (Continued)

	2002	2001
	£'000	£'000
Amounts repayable		
In one year or less, or on demand	4,260	3,960
In more than one year, but not more than two years	4,620	4,260
In more than two years, but not more than five years	15,900	14,880
In more than five years	25,980	31,620

Deferred Income

The deferred income of £39,145,000 (2001 £39,886,000) represents the unamortised amount of the European Regional Development Grant received in respect of the pipeline.

11) PROVISIONS FOR LIABILITIES AND CHARGES

Details of liabilities and charges, which relate solely to deferred tax, are as follows:

	2002	Restated
	£'000	£'000
Deferred Tax Provided		
At 1 January 2002 (restated)	7,108	5,127
Profit and loss charge/(credit)	3,190	1,981
At 31 December 2002	<u>10,298</u>	<u>7,108</u>

The deferred taxation provisions comprise:

Accelerated Capital Allowances	16,488	14,332
Provision for liabilities allowable for tax in future years	(6,190)	(7,224)
	<u>10,298</u>	<u>7,108</u>

There is no unprovided deferred tax.

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

12) SHARE CAPITAL

	2002	2001
	£	£
Authorised ordinary shares of £1 each	<u>860,928</u>	<u>860,928</u>
Issued, allotted and fully paid shares of £1 each	<u>860,928</u>	<u>860,928</u>

13) RECONCILIATION OF MOVEMENT IN SHAREHOLDERS' FUNDS

	2002	Restated
	£'000	2001
		£'000
Profit on ordinary activities after taxation for the financial year	3,374	4,321
Dividend	(4,500)	(4,500)
Net (reduction) to shareholders' funds	<u>(1,126)</u>	<u>(179)</u>
Opening shareholder's funds as previously reported	26,320	24,518
Prior year adjustment – FRS 19	(7,108)	(5,127)
Opening shareholder's funds as restated	<u>19,212</u>	<u>19,391</u>
Closing shareholders' funds	<u>18,086</u>	<u>19,212</u>

14) RECONCILIATION OF RESERVES

	Profit and	Share	
	Loss Account	Premium	
	£'000	Account	Total
		£'000	£'000
As at 1 January 2002 as previously reported	11,447	14,012	25,459
Prior Year adjustment – FRS 19	(7,108)	-	(7,108)
Retained loss for the financial year	(1,126)	-	(1,126)
As at 31 December 2002	<u>3,213</u>	<u>14,012</u>	<u>17,225</u>

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

15) CASH FLOW FROM OPERATING ACTIVITIES

Reconciliation of operating profit to net cash inflow from operating activities:

	2002	2001
	£'000	£'000
Operating profit	9,348	9,477
Depreciation charges	3,136	3,131
ERD grant amortisation	(1,084)	(1,077)
Debtors – decrease/(increase)	340	(340)
Creditors – (decrease)/increase	(1,043)	(118)
Cash inflow from operating activities	<u>10,697</u>	<u>11,073</u>

16) ANALYSIS OF CHANGES IN NET DEBT

	1 January	Cash	31 December
	2002	Flow	2002
	£'000	£'000	£'000
Cash at bank and in hand	3,046	(648)	2,398
Bank loan	(54,720)	3,960	(50,760)
Net debt	<u>(51,674)</u>	<u>3,312</u>	<u>(48,362)</u>

17) RELATED PARTY TRANSACTIONS

	Sales to Related		Purchases		Management	
	Party		from Related		Recharge	
	2002	2001	2002	2001	2002	2001
	£'000	£'000	£'000	£'000	£'000	£'000
Premier Power Limited	995	7,768				
Phoenix Natural Gas Limited			-	11		
Sunfish Insurance PCC Limited			74	66		
BG International Ltd			972	913	369	391
Keyspan Energy					23	23

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

17) RELATED PARTY TRANSACTIONS (Continued)

	Amounts owed by Related Party		Amounts Owed to Related Party	
	2002	2001	2002	2001
	£'000	£'000	£'000	£'000
Premier Power Limited	42	851		
BG Group plc			183	108
Keyspan Energy			23	23

Premier Power Limited

Premier Power Limited owns and operates Ballylumford Power Station in Northern Ireland, and is a wholly owned subsidiary of BG Energy Holdings Limited. Premier Power Limited ships gas through the Company's pipeline to fuel the power station.

Phoenix Natural Gas Limited

Phoenix Natural Gas Limited owns and operates the gas distribution system in the Greater Belfast area and ships gas through the Company's pipeline. The Company is 51% owned by BG Energy Holdings Limited.

Sunfish Insurance PCC Limited

Sunfish Insurance PCC Limited is a wholly owned subsidiary of BG Group and arranges the insurance of the pipeline.

BG International Limited

BG Group plc provides a management team for Premier Transmission Limited, together with a range of support services. The management recharge is for staff costs.

BG Energy Holdings Limited/KeySpan Energy Development Corporation

BG Energy Holdings Limited and KeySpan Energy Development Corporation are the parent companies of Premier Transmission Limited (see note 19 below). KeySpan Energy Development Corporation recharge certain directors costs to the Company.

PREMIER TRANSMISSION LIMITED
NOTES TO THE ACCOUNTS FOR THE YEAR ENDED 31 DECEMBER 2002

The following directors of the Company held directorships in the above related parties:

J.A. Rooney	Phoenix Natural Gas Limited
A.C.D.S McCallum	Phoenix Natural Gas Limited
M.A. Jamieson	Phoenix Natural Gas Limited and Premier Power Limited
L.W. Dawson	Phoenix Natural Gas Limited
S. Surrall	Phoenix Natural Gas Limited and Premier Power Limited
W.H. Adamson	Phoenix Natural Gas Limited and Premier Power Limited
H.N. Nichols	Phoenix Natural Gas Limited
A.J. DiBrita	Phoenix Natural Gas Limited

18) COMMITMENTS

Authorised and committed future capital expenditure as at 31 December 2002 is £198,000 (2001 nil).

19) ULTIMATE PARENT COMPANY

KeySpan Energy Development Corporation and BG Energy Holdings Limited, a wholly owned subsidiary of BG Group plc, each has a 50% shareholding in the Company.

The Keyspan Energy Development Corporation shareholding is held by Keyspan (UK) Limited (25.5%) and Keyspan CI Limited (24.5%).

Copies of the group accounts of BG Group plc may be obtained from BG Group plc, 100 Thames Valley Park Drive, Reading, Berkshire, RG6 1PT.

Copies of the group accounts of KeySpan Energy Development Corporation may be obtained from Keyspan Energy Development Corporation, One MetroTech Center, 18th Floor, Brooklyn, New York 11201.