Registered Number : 4236804

Gaz de France Marketing Limited

Report and Financial Statements

31 December 2005

Registered No. 4236804

Directors
Mr J C Depail (Chairman)
Mr E Stab

Secretary
Mr D Park

Auditors
Ernst & Young LLP
Cloth Hall Court
14 King Street
Leeds LS1 2JN

Bankers
Barclays Bank PLC
50 Pall Mall
London SW1A 1QF

Registered Office
1 City Walk
Leeds
West Yorkshire
LS11 9DX

Directors' report

The directors present their report and the company financial statements for the year ended 31 December 2005. For all periods up to and including the year ended 31 December 2004, the directors presented the company financial statements in accordance with United Kingdom generally accepted accounting practice (UK GAAP). These financial statements, for the year ended 31 December 2005, are the first the directors have presented in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union (EU).

Results and dividends

The results for the year ended 31 December 2005 are shown in the Income Statement on page 7. The loss for the year after taxation was £13,214,015 (2004 - £8,723,195 loss)

The directors do not recommend the payment of a dividend.

Principal activities, review of the business and future developments

The principal activities of the company are the purchase, supply and management of electricity to industrial and commercial customers. On 1 April 2005, the assets and liabilities associated with the company's Combined Heat and Power Station at Shotton were transferred to a fellow subsidiary undertaking, Gaz de France Generation Limited. The principal activities of the company therefore no longer include the generation of electricity.

The result for the year reflects the group's investment in the growth of the business. The implementation of growth plans has achieved improved turnover during the course of the year. With this growth and the continued support of the ultimate parent company, the directors believe that the future prospects of the company are satisfactory.

Directors and their interests

The directors who served during the year ended 31 December 2005 were:

Mr J C Depail (Chairman)
Mr E Stab

There are no directors interests requiring disclosure under the Companies Act 1985.

Supplier payment policy

The company's policy is to settle terms of payment with suppliers when agreeing the terms of each transaction, ensure that suppliers are made aware of the terms of payment and abide by the terms of payment.

Disabled employees

Applications for employment by disabled persons are always fully considered, bearing in mind the respective aptitudes and abilities of the applicants concerned. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with the company continues and that appropriate training is arranged. It is the policy of the company that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employees

The company places considerable value on the involvement of its employees and has continued its previous practice of ensuring effective two-way communication on matters affecting them as employees, and on various factors affecting the performance of the company. This is achieved through both formal and informal meetings, together with a regular newsletter. During the year members were elected to an Employee Works Council, the remit of this council is to further improve the two-way communication between the company and its employees.

Directors' report

Auditors

A resolution to reappoint Ernst & Young LLP as auditors will be put to the members at the Annual General Meeting.

On behalf of the Board
31 march 2006

J C Depail
Director

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards as adopted by the European Union.

The directors are required to prepare financial statements for each financial year which present fairly the financial position of the company and of the group and the financial performance and cash flows of the company and of the group for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- state that the company has complied with IFRSs, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Independent auditors' report

to the shareholders of Gaz de France Marketing Limited

We have audited the company's financial statements (the "financial statements") for the year ended 31 December 2005 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 28. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company"s members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company"s members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors
The directors are responsible for preparing the financial statements in accordance with applicable United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union as 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 International Standards on Auditing (UK and Ireland).

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 1985. 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 other transactions are not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) 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 judgments 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.

Independent auditors' report

to the shareholders of Gaz de France Marketing Ltd

Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31 December 2005 and of its loss for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Leeds
28 April 2006

Income statement

for the year ended 31 December 2005

	Notes	2005 £	2004 £
Revenue	4	555,857,074	301,616,110
Cost of sales		(558,769,480)	(294,649,672)
Gross (loss)/profit		(2,912,406)	6,966,438
Administrative expenses - ongoing		(7,839,209)	(16,520,368)
- exceptional	6	(125,497)	(32,342)
Operating loss from continuing operations	5	(10,877,112)	(9,586,272)
Finance income	8	8,791,918	272,850
Finance costs	9	(10,934,115)	(750,528)
Loss from continuing operations before taxation		(13,019,309)	(10,063,950)
Tax credit	10	1,579,383	1,340,755
Loss for the year from continuing operations	24	(11,439,926)	(3,423,245)
Loss for the year from discontinued operations	11	(1,774,089)	(5,299,950)
Loss for the year attributable to equity holders of the parent company	24	(13,214,015)	(8,723,195)

Statement of recognised income and expense

for the year ended 31 December 2005

There was no recognised income or expense attributable to the shareholders of the company other than the loss for the year ended 31 December 2005 of £13,214,015 (2004 – £8,723,195 loss).

Balance sheet

at 31 December 2005

	Note	2005 £	2004 £
Non-current assets			
Property, plant and equipment	12	859,052	35,724,707
Intangible assets	13	1,495,003	2,502,871
Financial assets	21	9,476,728	-
Total non-current assets		11,830,783	38,227,578
Current assets			
Inventories	14	534,858	77,765
Trade and other receivables	15	319,348,053	174,243,893
Financial assets	21	18,342,421	-
Cash on deposit	16	-	27,849
Cash at bank and in hand	16	14,428,130	4,355,961
Total current assets		352,653,462	178,705,468
Current liabilities			
Trade and other payables	17	355,471,558	233,029,002
Interest bearing loans and borrowings	18	-	4,517,296
Financial liabilities	21	18,342,421	-
Current tax liability	19	324	324
Provisions	20	5,907,840	-
Total current liabilities		379,722,143	237,546,622
NET CURRENT LIABILITIES		(27,068,681)	(58,841,154)
Non-current liabilities			
Interest bearing loans and borrowings	18	9,704,492	-
Financial liabilities	21	9,476,728	-
Provisions	20	-	624,289
Total non-current liabilities		19,181,220	624,289
NET LIABILITIES		(34,419,118)	(21,237,865)
Capital and reserves			
Equity share capital	22	1	1
Retained earnings	24	(34,419,119)	(21,237,866)
TOTAL EQUITY	24	(34,419,118)	(21,237,865)

J C Depail
Director
31 March 2006

Cash flow statement

for year ended 31 December 2005

	Note	2005 £	2004 £
Operating activities			
Operating loss from continuing operations		(10,877,112)	(9,586,272)
Operating loss from discontinuing operations	11	(1,887,125)	-
		(12,764,237)	(9,586,272)
Adjustments to reconcile operating loss to net cash flows from operating activities			
Depreciation of property, plant and equipment		1,585,324	4,752,216
Amortisation of intangible fixed assets		1,848,104	1,812,132
Share based payments		130,875	-
Loss on disposal of property, plant and equipment		2,219	-
(Increase) in inventories		(457,093)	-
(Increase) in trade and other receivables		(136,311,716)	(142,779,905)
(Increase) in financial assets		(27,819,149)	-
Increase in payables		152,942,618	142,023,757
Increase in financial liabilities		27,819,149	-
Increase in provisions		5,283,551	-
Cash generated from operations		12,259,645	(3,778,072)
Interest paid		(230,319)	(77,633)
Interest received		108,188	7,877
Tax received		1,583,703	4,650
Net cash flows from operating activities		13,721,217	(3,843,178)
Cash flows from investing activities			
Purchase of property, plant and equipment		(872,674)	(1,780,178)
Purchase of intangible assets		(840,236)	(326,789)
Net cash flows used in investing activities		(1,712,910)	(2,106,967)
Cash flows from financing activities			
Transfer of overdraft to Gaz de France Generation Limited		2,651,422	-
Share-based payments		(98,113)	-
Finance lease principal payments		-	(25,500)
Net cash flows used in financing activities		2,553,309	(25,500)
Net increase/(decrease) in cash and cash equivalents		**14,561,616**	**(5,975,645)**
Cash and cash equivalents at 1 January		**(133,486)**	**5,842,159**
Cash and cash equivalents at 31 December	16	**14,428,130**	**(133,486)**

Notes to the financial statements

at 31 December 2005

1. Authorisation of financial statements and statement of compliance with IFRSs

The financial statements of Gaz de France Marketing Limited (the 'Company') for the year ended 31 December 2005 were authorised for issue by the board of the directors on 31 March 2006 and the balance sheet was signed on the board's behalf by J C Depail. Gaz de France Marketing Limited is a private limited company incorporated and domiciled in England & Wales.

The company's financial statements have been prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 1985. The principal accounting policies adopted by the company are set out in notes 2 and 3.

2. Accounting policies

Basis of Preparation

This is the first year in which the company's financial statements have been prepared under IFRS and the comparatives have been restated from UK Generally Accepted Accounting Practice (UK GAAP) to comply with IFRS.

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2005.

The company financial statements are presented in Sterling (£).

The changes in accounting policies result from adoption of the following new or revised standards:

- IAS 32 Financial Instruments: Disclosure and Presentation
- IAS 38 (revised) Intangible Assets
- IAS 39 Financial Instruments: Recognition and Measurement

The principal effects of these changes in polices are discussed below, and the financial impact is disclosed in note 28.

IAS 32 Financial Instruments: Disclosure and Presentation

Comparative information on financial instruments is prepared in accordance with UK GAAP and the company has adopted IAS 32 *Financial Instruments: Disclosure and Presentation* and IAS 39 *Financial Instruments: Recognition and Measurement* from 1 January 2005.

IAS 38 (revised) Intangible Assets

Internally generated computer software comprising of various pricing and billing software have been reclassified from Tangible Fixed Assets to Intangible Assets. The net book value at 1 January 2004 of the assets reclassified was £3,988,214.

IAS 39 Financial Instruments: Recognition and Measurement

Prior to 31 December 2005, the company had entered into wholesale purchase commitments for future delivery under certain supply contracts where the contract permits the customer to sell back the purchases made prior to delivery. The net purchase commitments related to such supply contracts have been fair valued through the income statement. The movement in fair value of those commitments is recognised as a derivative financial instrument and amounts to £27,819,149.

The supply contracts with such customers are designated as hedging instruments and these supply contracts are also fair valued through the income statement.

Notes to the financial statements

at 31 December 2005

2. Accounting policies (continued)

Accounting policies applied in the year ended 31 December 2004

As noted above, the company adopted IAS 32 and IAS 39 with effect from 1 January 2005, and as permitted under IFRS 1 the company has not restated comparative information. For accounting periods up to the year ended 31 December 2004 the following accounting policies were applied in respect of financial instruments in the financial statements of the company:

Derivative instruments

The company enters into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management.

Prior to 31 December 2004, the company had entered into wholesale purchase commitments for future delivery under certain supply contracts where the contract permits the customer to sell back the purchases made prior to delivery. Purchase commitments under these and all other supply contracts are not fair valued but are measured using regular trade date accounting as these are classified as held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Nature of the main adjustments to comply with IAS 32 and IAS 39

Had IAS 32 and IAS 39 been applied from 1 January 2004 the following adjustments would have been necessary in the financial statements for the year ended 31 December 2004:

- all derivatives would have been brought onto the balance sheet at fair value;
- overdraft balances not meeting the offset rules in IAS 32 would have been reclassified separately in the balance sheet from cash and short-term deposits.

Going concern

The company is dependent on financial support being made available by a group company, Gaz de France International S.A., to enable it to continue in operational existence and to meet its debts as they fall due. The ultimate parent company has authorised and committed sufficient guarantees and letters of support to provide the necessary banking facilities on an ongoing basis. The directors believe that it is therefore appropriate to prepare financial statements on a going concern basis.

3. Significant accounting judgements and policies

Judgements

In the process of applying the company's accounting policies, management has made the following judgements apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Provisions

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

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Significant accounting policies

Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated depreciation and any provision for impairment.

Depreciation is provided on property, plant and equipment in equal annual instalments over their estimated useful lives. The rates of depreciation are as follows:

Leasehold property	-	over the period of the lease
Plant & Machinery	-	over the shorter of the individual asset life and the estimated remaining life of the power plant (2 – 23 years)
Fixtures, fittings and office equipment	-	3 years
IT equipment & software	-	3 years to 5 years
Motor vehicles	-	5 years

Other intangible assets

Intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses.

Intangible assets acquired separately from a business are carried initially at cost. An intangible asset acquired as part of a business combination is recognised outside goodwill if the asset is separable or arises from contractual or other legal rights and its fair value can be measured reliably. Expenditure on internally developed intangible assets, excluding development costs, is taken to the income statement in the year in which it is incurred. Development expenditure is recognised as an intangible asset only after its technical feasibility and commercial viability can be demonstrated.

Intangible assets with a finite life are amortised on a straight line basis over their expected useful lives, as follows:

- Application software – 3 years

The carrying value of intangible assets is reviewed for impairment whenever events or changes in circumstances indicate the carrying value may not be recoverable. In addition, the carrying value of capitalised development expenditure is reviewed for impairment annually before being brought into use.

Impairment of assets

The company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Financial Assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value. As explained in note 21, the company has not restated comparative amounts on first applying IAS 32 and IAS 39, as permitted in paragraph 36A of IFRS 1.

All regular way purchases and sales of financial assets are recognised on the trade date, being the date that the company commits to purchase or sell the asset. Regular way transactions require delivery of assets within the timeframe generally established by regulation or convention in the market place. The subsequent measurement of financial assets depends on their classification, as follows:

Financial assets at fair value through profit or loss

Derivatives are classified as assets at fair value through profit or loss as they are designated as hedging instruments. Assets are carried in the balance sheet at fair value with gains or losses on financial assets at fair value through profit or loss are recognised in the income statement.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, do not qualify as trading assets and have not been designated as either fair value through profit and loss or available for sale. Such assets are carried at amortised cost using the effective interest method if the time value of money is significant.

Fair values

The fair value of hedging instruments is determined by reference to market prices at the close of business on the balance sheet date.

Trade and other receivables

Trade receivables, which generally have 14 - 30 day terms, are recognised and carried at the lower of their original invoiced value and recoverable amount. Where the time value of money is material, receivables are carried at amortised cost. Provision is made when there is objective evidence that the company will not be able to recover balances in full. Balances are written off when the probability of recovery is assessed as being remote.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purpose of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at fair value less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses arising on the repurchase, settlement or otherwise cancellation of liabilities are recognised respectively in finance income and finance expense.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired;
- the company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the company could be required to repay.

Where continuing involvement takes the form of a written and/or purchased option (including a cash-settled option or similar provision) on the transferred asset, the extent of the company's continuing involvement is the amount of the transferred asset that the company may repurchase, except that in the case of a written put option (including a cash-settled option or similar provision) on an asset measured at fair value, the extent of the company's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, such that the difference in the respective carrying amounts together with any costs or fees incurred are recognised in profit or loss.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Derivative financial instruments and hedging

The company enters into wholesale purchase commitments to satisfy demand forecasts associated with its supply contracts. The movements in fair value of some of these commitments qualify as derivative financial instruments due to the terms and conditions attached to the related supply contracts. From 1 January 2005, such derivative financial instruments are initially recognised at fair value on the date on which such a wholesale purchase commitment is entered into and are subsequently remeasured at fair value at each reporting date. For each such event, the related supply contract acts as a natural hedge to the wholesale purchase commitment. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

For those derivatives designated as hedges and for which hedge accounting is used, the hedging relationship is documented at its inception. This documentation identifies the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how effectiveness will be measured throughout its duration. Such hedges are expected at inception to be highly effective.

For the purpose of hedge accounting, hedges are classified as fair value hedges as they are hedging the exposure to changes in the fair value of a recognised asset or liability.

Fair value hedges

For fair value hedges, the carrying amount of the hedged item is adjusted for gains and losses attributable to the risk being hedged; the derivative is remeasured at fair value and gains and losses from both are taken to profit or loss. The company discontinues fair value hedge accounting if the hedging instrument expires or is sold, terminated or exercised, the hedge no longer meets the criteria for hedge accounting or the company revokes the designation.

Inventories

Inventories have been stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale. Costs incurred in bringing inventories to their present location and condition is accounted for as the weighted average purchase cost.

Income Taxes

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates and laws that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is recognised on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, carried forward tax credits or tax losses can be utilised:

Deferred income tax assets and liabilities are measured on an undiscounted basis at the tax rates that are expected to apply when the related asset is realised or liability is settled, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Income tax is charged or credited directly to equity if it relates to items that are credited or charged to equity. Otherwise income tax is recognised in the income statement.

Provisions

A provision is recognised when the company has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, expected future cash flows are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where the company expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost.

Revenue Recognition

Sale of goods

Revenue represents amounts receivable for goods provided in the normal course of business excluding discounts, VAT and other sales related taxes. Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have been passed to the buyer, usually on supply of energy to the customer.

Finance Income

Revenue is recognised as interest accrues.

Operating leases and hire purchase commitments

Operating lease rentals are charged to income in equal annual amounts over the lease term.

Assets acquired under hire purchase agreements and finance leases are capitalised in the balance sheet and are depreciated in accordance with the company's normal policy. The outstanding liabilities under such agreements, less any interest not yet due, are included in creditors. Interest on such agreements is charged in the profit and loss account over the term of each agreement.

Onerous contracts

Provision is made for the net present cost, using a risk-free discount rate, of expected losses on onerous contracts. The provision is based on the difference between the contracted sales prices and the expected weighted average cost of electricity.

Borrowing costs

Borrowing costs are recognised as an expense when incurred.

Pension costs

Contributions to the defined contribution scheme are charged in the period in which they arise.

Share-based payments

Equity settled transactions

The cost of equity-settled share-based transactions with employees is measured by reference to the fair value at the date at which they are granted and is recognised as an expense in the year granted as there is no vesting period. Fair value is determined using an appropriate pricing model which takes into consideration the period in which shares are non transferable.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Exceptional Items

The company presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature and expected infrequency of the events giving rise to them, merit separate presentation to allow shareholders to understand better the elements of financial performance in the year, so as to facilitate comparison with prior periods and to assess better trends in financial performance.

New standards and interpretations not applied

During the year, the IASB and IFRIC have issued the following standards and interpretations with an effective date after the date of these financial statements:

International Accounting Standards (IAS / IFRSs)		**Effective date**
IFRS 1	Amendment relating to IFRS 6	1 January 2006
IFRS 4	Insurance Contracts (Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts)	1 January 2006
IFRS 6	Exploration for and Evaluation of Mineral Assets	1 January 2006
IFRS 6	Amendment relating to IFRS 6	1 January 2006
IFRS 7	Financial Instruments: Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements: Capital Disclosures	1 January 2007
IAS 19	Amendment – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
IAS 39	Fair Value Option	1 January 2006
IAS 39	Amendments to IAS 39 – Transition and Initial Recognition of Financial Assets and Financial Liabilities (Day 1 profits)	1 January 2006
IAS 39	Cash Flow Hedge Accounting	1 January 2006
IAS 39	Amendment to IAS 39 and IFRS 4 – Financial Guarantee Contracts	1 January 2006

International Financial Reporting Interpretations Committee (IFRIC)		
IFRIC 4	Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5	Rights to Interests Arising from Decommissioning, Restoration and Environmental Rehabilitation Funds	1 January 2006
IFRIC 6	Liabilities arising from Participating in a Specific Market – Waste Electrical and Electronic Equipment	1 December 2005

The Directors do not anticipate that the adoption of these standards and interpretations will have a material impact on the Group's financial statements in the period of initial application.

Notes to the financial statements

at 31 December 2005

3. Significant accounting judgements and policies (continued)

Upon adoption of IFRS 7, the Group will have to disclose additional information about its financial instruments, their significance and the nature and extent of risks that they give rise to. More specifically the Group will need to disclose the fair value of its financial instruments and its risk exposure in greater detail. There will be no effect on reported income or net assets.

4. Revenue

Revenue represents amounts derived from the company's ordinary activities, excluding value added tax, and is generated within the UK. The revenue and loss are attributable to the principal activities of the company.

5. Operating loss

This is stated after charging/(crediting):

	2005	*2004*
	£	£
Change in fair value of certain wholesale purchase contracts	(27,819,149)	-
Change in fair value of amounts due to/from customers in respect of certain supply contracts	27,819,149	-
Depreciation:		
owned assets	1,585,324	4,712,216
assets held under finance leases	-	40,000
Amortisation of intangibles	1,848,104	1,812,132
Loss on disposal of property, plant and equipment	2,219	-
Auditors' remuneration in respect of - audit services	33,920	28,000
- non-audit services	15,167	22,703
Operating lease rentals - land & buildings	312,454	207,106
- others	153,356	44,056

6. Exceptional items

	2005	*2004*
	£	£r
Cost of restructuring and relocating continuing operations	(59,193)	32,342
Cost of employee share scheme	184,690	-
	125,497	32,342

Cost of restructuring and relocating continuing operations

During the year ended 31 December 2003, the company and certain of its fellow subsidiary undertakings moved their headquarters and operations from Telford to Leeds and the costs incurred have been charged to profit. The charges in 2004 represent the costs incurred in completing this. In 2005 the credit represents the release of accruals no longer required.

Notes to the financial statements

at 31 December 2005

6. Exceptional items (continued)

Cost of employee share schemes

In July 2005, Gaz de France, the company's ultimate parent undertaking, made an Initial Public Share Offer representing 22% of its authorised share capital. Employees (including senior executives) were entitled to participate through a number of different schemes under which they received equity instruments in return for past services rendered to the company. The charge recognised in relation to these schemes are shown in this note and detailed more fully in note 23.

7. Directors remuneration and staff costs

	2005	*2004*
	£	*£*
Wages and salaries	5,206,504	3,887,780
Social security costs	564,135	422,283
Other pension costs	172,780	175,983
	5,943,419	4,486,046

The monthly average number of employees (including directors) during the year was 160 (2004 - 126).

	2005	*2004*
	Number	*Number*
Sales and Marketing	48	37
Administration	112	89
	160	126

One director was remunerated during 2005 and received £182,246 inclusive of £19,082 company contributions paid to the parent company defined benefit pension scheme pension (2004 - £146,667 pension £27,618). Other group companies paid all other directors.

8. Finance income

	2005	*2004*
	£	*£*
Interest receivable for late payment	131,142	
Bank interest receivable	221,458	272,850
Inter-company loan interest	8,439,318	-
	8,791,918	272,850

For terms and conditions relating to related party receivables, refer to note 27.

Notes to the financial statements

at 31 December 2005

9. Finance costs

	2005 £	2004 £
Bank loans, overdrafts and other loans repayable within 5 years	249,087	206,189
Finance lease interest	-	1,000
Inter-company loan interest	10,685,028	543,339
	10,934,115	750,528

For terms and conditions relating to related party payables, refer to note 27.

10. Taxation

(a) Tax credit

	2005 £	2004 £
UK corporation tax		
UK corporation tax on profits of the period	-	-
Group relief recoverable	(1,439,000)	(498,720)
Adjustments in respect of previous periods	(253,419)	(842,036)
Tax credit in the income statement	(1,692,419)	(1,340,756)

(b) Reconciliation of tax credit

	2005 £	2004 £
Loss before tax	(14,906,434)	(10,063,950)
Loss multiplied by standard rate of corporation tax of 30%	(4,471,930)	(3,019,185)
Adjustments in respect of prior periods	(253,419)	(842,036)
Tax effect of no-deductible amortisation and impairment of goodwill	-	-
Tax effect of non-deductible or non-taxable items	13,599	360,082
Group relief surrendered for no payment	2,375,515	-
Transfers to unrecognised tax assets	643,816	2,160,383
Tax credit	(1,692,419)	(1,340,756)

(c) Factors affecting future tax charges

The company has deductible temporary differences of £4,629,552 (2004 £5,049,240) and tax losses of £5,872,996 (2004 £10,851,031) to be carried forward indefinitely and offset against future taxable profits.

A net deferred tax asset of £3,150,764 (2004 £4,770,081) in respect of deductible temporary differences and tax losses has not been recognised due to uncertainty of future taxable profits.

Notes to the financial statements

at 31 December 2005

11. Discontinued Operations

On 1 April 2005 the company transferred the assets and liabilities of its Combined Heat and Power Station at Shotton at Net Book Value. By transferring these assets and liabilities the company has discontinued the generation business unit of its activities. The transfer was made to Gaz de France Generation Limited, a fellow subsidiary undertaking of Gaz de France ESS (UK) Ltd.

The results for the generation business for the period prior to the transfer, together with its results for 2004, are presented below;

	2005	2004
	£	£
Revenue	9,450,211	29,940,860
Cost of sales	(9,509,968)	(25,121,219)
Gross (loss)/profit	(59,757)	4,819,641
Administrative expenses	(1,827,368)	(10,119,591)
Operating loss	(1,887,125)	(5,299,950)
Finance Costs	-	-
Loss before tax from discontinued operations	(1,887,125)	(5,299,950)
Tax related to pre tax loss	113,036	-
Loss for the period from discontinued operations	(1,774,089)	(5,299,950)

The fair value of the assets and liabilities transferred were as follows:

	£
Property, plant and equipment	34,150,786
Inventories	2,117,867
Trade and other receivables	7,527,196
Trade and other payables	(12,119,125)
Provisions	(624,289)
Interest bearing loan with group undertaking	(38,105,505)
Bank overdraft	(2,651,422)
Total disposal consideration	(9,704,492)

The nature of the disposal consideration of £9,704,492 payable to Gaz de France Generation Limited for assuming the net liabilities of Shotton Combined Heat and Power Station was in the form of a loan and thus there was no consideration in the form of cash and cash equivalents. For details of related party loans see note 27.

Notes to the financial statements

at 31 December 2005

11. Discontinued Operations (continued)

The net cash flows attributable to Shotton Combined Heat and Power Station up to the date of transfer are as follows:

	2005	2004
	£	£
Operating cash flows	(5,328,169)	1,154,141
Investing cash flows	(725,376)	(1,752,195)
Net cash (outflow) / inflow	(6,053,545)	(598,054)

Notes to the financial statements

at 31 December 2005

12. Property, plant and equipment

	Long Leasehold Property	*Plant & Machinery*	*Fixtures, fittings and office equipment*	*IT software and equipment*	*Motor vehicles*	*Total*
	£	£	£	£	£	£
Cost						
At 1 January 2005	1,278,132	37,941,514	408,985	1,026,335	50,000	40,704,966
Additions	1,499	94,352	261,021	515,802	-	872,674
Discontinued Operations	(1,279,631)	(38,035,866)	(40,543)	(55,905)	(50,000)	(39,461,945)
Disposals	-	-	-	(5,819)	-	(5,819)
At 31 December 2005	-	-	629,463	1,480,413	-	2,109,876
Accumulated depreciation						
At 1 January 2005	55,780	4,188,599	60,979	662,496	12,405	4,980,259
Charge for the year	11,581	1,026,058	93,603	451,617	2,465	1,585,324
Discontinued Operations	(67,361)	(5,214,657)	-	(14,271)	(14,870)	(5,311,159)
Disposals	-	-	-	(3,600)	-	(3,600)
At 31 December 2005	-	-	154,582	1,096,242	-	1,250,824
Net book amount						
At 31 December 2005	-	-	474,881	384,171	-	859,052

Cost						
At 1 January 2004	1,212,807	37,265,977	393,469	968,578	50,000	39,890,831
Additions	65,325	1,641,580	15,516	57,757	-	1,780,178
Disposals	-	(966,043)	-	-	-	(966,043)
At 31 December 2004	1,278,132	37,941,514	408,985	1,026,335	50,000	40,704,966
Accumulated depreciation						
At 1 January 2004	10,318	950,083	9,819	221,366	2,500	1,194,086
Charge for the year	45,462	4,204,559	51,160	441,130	9,905	4,752,216
Disposals	-	(966,043)	-	-	-	(966,043)
At 31 December 2004	55,780	4,188,599	60,979	662,496	12,405	4,980,259
Net book amount						
At 31 December 2004	1,222,352	33,752,915	348,006	363,839	37,595	35,724,707

At 31 December 2005, IT software and equipment included leased assets with a net book value of £nil (2004 - £28,463).

Notes to the financial statements

at 31 December 2005

13. Intangible assets

	2005	*2004*
	Application Software	*Application Software*
	£	*£*
Cost		
At 1 January	5,946,259	5,619,470
Additions	840,236	326,789
At 31 December	6,786,495	5,946,259
Aggregate amortisation		
At 1 January	3,443,388	1,631,256
Charge for the period	1,848,104	1,812,132
At 31 December	5,291,492	3,443,388
Net book amount at 31 December	1,495,003	2,502,871

The application software capitalised relates to several different applications developed specifically for the Retail businesses of the Gaz de France ESS (UK) Ltd group. The useful economic life of these applications have been determined as 3 years. The amortisation charge for the year is included within administrative expenses.

14. Inventories

	2005	*2004*
	£	*£*
Fuel oil	-	77,765
Levy Exempt Certificates	534,858	-

The fuel oil relates to the Combined Heat and Power Station at Shotton which was disposed of in the year as detailed in note 11.

During the year the company expensed £10,367,113 of Levy Exempt Certificates (2004 - £3,726,447).

Notes to the financial statements

at 31 December 2005

15. Trade and other receivables

	2005 £	*2004* £
Trade receivables	42,576,775	59,917,197
Amounts owed by group undertakings	30,704,894	28,587,479
Amounts owed by fellow subsidiary undertakings	183,850,410	81,124,862
Other debtors	-	8,249
Prepayments and accrued income	62,215,974	580,443
Other taxes and social security	-	4,025,663
	319,348,053	174,243,893

For terms and conditions relating to related party receivables, refer to note 27.

16. Cash and short-term deposits

	2005 £	*2004* £
Cash at bank and in hand	14,428,130	27,849
Short-term deposits	-	4,355,961
	14,428,130	4,383,810

Cash at bank earns interest at floating rates based on daily bank deposit rates. Short-term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the company, and earn interest at short-term deposit rates.

The company, in association with its immediate parent company and other subsidiary undertakings, operates a bank netting facility. A Letter of Comfort from Gaz de France International SA held in the name of the company's bankers provides security for this facility.

For the purpose of the cash flow statement, cash and cash equivalents comprise the following at 31 December:

	2005 £	*2004* £
Cash at bank and in hand	14,428,130	27,849
Short-term deposits	-	4,355,961
Bank overdraft (Note 18)	-	(4,517,296)
	14,428,130	(133,486)

Notes to the financial statements

at 31 December 2005

17. Trade and other payables

	2005 £	2004 £
Trade creditors	19,159,786	1,561,859
Amounts owed to group undertakings	77,927,397	63,311,940
Amounts owed to fellow subsidiary undertakings	229,769,088	143,428,865
Other taxation and social security	14,574,722	13,759,763
Accruals and deferred income	14,040,565	10,966,575
	355,471,558	233,029,002

For terms and conditions relating to related party payables, refer to note 27.

18. Interest bearing loans and borrowings

	2005 £	2004 £
Current		
Bank overdrafts (a)	-	4,517,296
Non-current		
Amount owed to fellow subsidiary undertaking (b)	9,704,492	-

(a) The bank overdraft is secured by a Letter of Comfort from Gaz de France International SA in favour of Barclays Bank Plc. The interest rate charged on all overdrawn balances is Barclays Base Rate + 1%.

(b) The amount owed to fellow subsidiary undertaking relates to a loan received from Gaz de France Generation Limited in consideration for the sale of the Combined Heat and Power Station at Shotton as detailed in note 11. For terms and conditions please refer to note 27.

19. Current tax liabilities

	2005 £	2004 £
Corporation Tax	324	324

Notes to the financial statements

at 31 December 2005

20. Provisions

	Onerous Contracts £	*Decomm-issioning* £	*Total* £
At 1 January 2005	-	624,289	624,289
Arising during the year	5,907,840	-	5,907,840
Transferred to Gaz de France Generation Limited	-	(624,289)	(624,289)
Utilised	-		-
Unused amounts reversed	-		-
At 31 December 2005	5,907,840	-	5,907,840
Current 2005	5,907,840	-	5,907,840
Non-current 2005	-	-	-
	5,907,840	-	5,907,840
Current 2004	-	-	-
Non-current 2004	-	624,289	624,289
	-	624,289	624,289

Onerous contracts

Provision is made for the net present cost, using a risk-free discount rate, of expected losses on onerous long-term sales contracts. The provision is based on the difference between the contracted sales prices and the expected weighted average cost of electricity. All the costs are expected to be utilized within one year.

Decommissioning costs

The Power plant transferred to Gaz de France Generation on 1 April 2005 is situated on land leased under a 99-year ground lease expiring in June 2098. The company is required within the terms of this lease to reinstate the premises to the state that existed at the commencement of the lease. Provision was made up to the date of transfer for the net present value of the estimated cost of dismantling and decommissioning the power plant at the end of its useful economic life.

Notes to the financial statements

at 31 December 2005

21. Financial Instruments

The company's exposure to financial instruments is limited to the use of cash balances and floating rate loans to satisfy funding requirements. Certain wholesale purchase commitments and supply contracts are also designated as financial instruments (see notes on hedges below).

Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the company as at 31 December 2005 and as at 31 December 2004 is as follows:

Year ended 31 December 2005	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	£	£	£	£	£	£	£
Cash and short term deposits	14,428,130	-	-	-	-	-	14,428,130
Amounts owed by fellow subsidiary undertakings	183,717,053	-	-	-	-	-	183,717,053
Amounts owed by group undertakings	30,704,894	-	-	-	-	-	30,704,894
Amounts owed to fellow subsidiary undertakings	229,769,088	9,704,492	-	-	-	-	239,473,580
Amounts owed to group undertakings	77,927,397	-	-	-	-	-	77,927,397

Year ended 31 December 2004	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	More than 5 years	Total
	£	£	£	£	£	£	£
Cash and short term deposits	4,383,810	-	-	-	-	-	4,383,810
Amounts owed by fellow subsidiary undertakings	81,124,862	-	-	-	-	-	81,124,862
Amounts owed by group undertakings	28,587,479	-	-	-	-	-	28,587,479
Overdraft	4,517,296	-	-	-	-	-	4,517,296
Amounts owed to fellow subsidiary undertakings	143,428,865	-	-	-	-	-	143,428,865
Amounts owed to group undertakings	63,311,940	-	-	-	-	-	63,311,940

All of the above financial assets and liabilities bear interest at floating rates. Interest on financial instruments classified as floating rate varies according to the underlying reference rate.

The other financial assets and financial liabilities of the company are non-interest bearing and therefore are not subject to interest rate risk.

Credit risk

There are no significant concentrations of credit risk within the company. The maximum credit risk exposure relating to financial assets is represented by the carrying value as at the balance sheet date.

Fair values of financial assets and financial liabilities

Set out below is a comparison by category of carrying amounts and fair values of all of the company's financial instruments, including those classified under discontinued operations, that are carried in the financial statements. Note that in all cases the fair value is equal to the carrying value of those assets and liabilities.

Notes to the financial statements

at 31 December 2005

21. **Financial Instruments** (continued)

	2005	*2004*
	£	*£*
Financial Assets		
Cash and short term deposits	14,428,130	4,383,810
Amounts owed by fellow subsidiary undertakings	183,850,410	81,124,862
Amounts owed by group undertakings	30,704,894	28,587,479
Fair value adjustment of certain wholesale purchase commitments*		
- current	18,342,421	-
- non-current	9,476,728	-
Financial Liabilities		
Bank Overdraft	-	4,517,296
Amounts owed to fellow subsidiary undertakings		
- current	229,769,088	143,428,865
- non-current	9,704,492	-
Amounts owed to group undertakings	77,927,397	63,311,940
Amounts due to customers in respect of certain supply contracts*		
- current	18,342,421	-
- non-current	9,476,728	-

*see note on fair value hedges below

Hedges

Fair value hedges

The company enters into wholesale purchase commitments to cover future contracted supplies, subject to market liquidity, availability of products and compliance with risk policies and limits set down by management.

Prior to 31 December 2005, the company had entered into wholesale purchase commitments for future delivery under certain supply contracts where the contract permits the customer to sell back the purchases made prior to delivery. The net purchase commitments related to such supply contracts have been fair valued through the income statement. The movement in fair value is entirely attributable to changes in market prices. The supply contracts with such customers are designated as hedging instruments and these supply contracts are also fair valued through the income statement (see note 3).

The hedging relationship expires either upon the sell back of the purchase commitment at any time before the month of delivery, as instructed by the customer to whom the corresponding supply contract relates, or on actual delivery of the non-financial instrument.

Purchase commitments under all other supply contracts not containing a sell back facility are not fair valued but are measured using regular trade date accounting as these are classified as held for the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Other hedges

The company does not enter into cash flow hedges or hedges of a net investment in a foreign operation.

Notes to the financial statements

at 31 December 2005

22. Authorised and issued share capital

	2005	*2004*
	£	*£*
Authorised		
1,000 ordinary shares of £1 each	1,000	1,000
Called up, allotted and fully paid		
1 ordinary share of £1 each	1	1

23. Share-based payments

During the year certain ex-employees and all current employees with greater than 3 months service were entitled to participate in the Initial Public Offering of Gaz de France, the ultimate parent undertaking. There were 3 share purchase schemes open to UK employees:

Gaz Dispo

The purchase cost of shares under this scheme was £15.43 and could be sold immediately as they do not have a period of non-transferability. Bonus shares will be awarded on a 1 for 3 basis if the shares are held for a period of 1 year.

Gaz Plus

The purchase cost of shares under this scheme was £12.35, a 20% discount on the Initial Public Offer price. Shares are non-transferable for a period of two years and bonus shares will be awarded on a 1 for 2 basis, up to a value of £356.61, and 1 for 4 basis up to the maximum limit of £836.76 providing the shares are held for three years.

Gaz Abond

The purchase cost of shares under this scheme was £12.35, a 20% discount on the Initial Public Offer price. Shares are non-transferable for a period of five years and bonus shares will be awarded on a 1 for 1 basis, up to a value of £356.61, and 1 for 4 basis up to the maximum limit of £836.76 awarded once the five years has passed. A further benefit of this scheme is that the company purchased shares on behalf of employees. The company matched the employee investment up to £456.61, contributed £0.40 for every £1.00 the employee invested from £456.62 to £2,328.03 and contributed £0.25 for every £1.00 the employee invested from £2,328.04 up to a maximum of £6,664.81.

The expense recognised for share-based payments in respect of employee services received during, and prior to the year to 31 December 2005 is £130,875 (2004 - £nil). All of this expense arises from equity-settled share-based payment transactions.

Notes to the financial statements

at 31 December 2005

23. Share-based payments (continued)

The following table illustrates the number (No.) of shares granted in the year together with the weighted average fair value (WAFV) at the grant date;

	2005 No.	*2005 WAFV*	*2004 No.*	*2004 WAFV*
Shares purchased at grant date	70,658	13.82	-	-
Bonus shares issued	5,382	12.80	-	-
Total shares granted in the year	76,040	13.75	-	-

The fair-value of the equity-settled shares granted has been estimated at the date of grant using a method set out in the French Conseil National de la Comptabilité communication on employee share ownership plans. The valuation takes account of the terms and conditions upon which the shares were granted. The following table lists the inputs to the model used for the year ended 31 December 2005.

	2005	*2004*
Reference price of the shares(£)	14.09	-
Current price of the underlying share (£)	17.04	-
Average expected period of non-transferability(years)	3	-
Dividend yield (%)	3.25	-
Risk free interest rate (%)	3.20	-

The period of non-transferability, the dividend yield and the risk free interest rate were incorporated into the measurement of fair value. No other features were incorporated into the measurement of fair value.

Notes to the financial statements

at 31 December 2005

24. Reconciliation of movements in equity

	Equity Share Capital	*Retained Earnings*	*Total Equity*
	£	£	£
At 1 January 2004	1	(12,514,671)	(12,514,670)
Loss for the year	-	(8,723,195)	(8,723,195)
At 31 December 2004	1	(21,237,866)	(21,237,865)
Loss for the year	-	(13,214,015)	(13,214,015)
Share based payment	-	130,875	130,875
Employer contribution for share based payment	-	(98,113)	(98,113)
At 31 December 2005	1	(34,419,119)	(34,419,118)

25. *Pension arrangements*

The company operates a defined contribution pension scheme, the assets of which are held separately from those of the company. Employer's contributions to the scheme during the year were £172,780 (2004 – £175,983). At 31 December 2005, contributions of £nil (2004 – £nil) were unpaid.

26. Other financial commitments

(i) Operating leases

The company has entered into commercial operating leases on certain properties, motor vehicles and items of office equipment. These leases have an average duration of 3 and 15 years. None of the leases contain an option for renewal.

Future minimum rentals payable under non-cancellable operating leases are as follows:

	Land and building		*Other*	
	2005	*2004*	*2005*	*2004*
	£	£	£	£
Not later than one year	382,076	382,076	147,823	118,519
After one year but not more than five	1,910,380	1,910,380	167,684	315,507
After five years	2,635,631	3,017,707	-	-
	4,928,087	5,310,163	315,507	434,026

Notes to the financial statements

at 31 December 2005

26. Other financial commitments (continued)

Land & Building commitments include three leases relating to 1 City Walk, Leeds. Gaz de France ESS (UK) Ltd acts as joint guarantor with GDF International SA on 2 of these leases and Gaz de France ESS (UK) Ltd acts as sole guarantor on the other lease.

(ii) Electricity purchase commitments

At 31 December 2005 the company was committed to certain future electricity purchase contracts. These contracts are due to be settled as follows:

	2005	*2004*
	£	*£*
Not later than one year	262,020,170	235,533,509
After one year but not more than five	75,247,163	18,841,171
After five years	-	-
	337,267,333	254,374,680

(iii) Gas purchase commitments

At 31 December 2005 the company was committed to certain future gas purchase contracts. These contracts are due to be settled as follows:

	2005	*2004*
	£	*£*
Not later than one year	15,854,766	4,692,933
After one year but not more than five	8,879,780	-
After five years	-	-
	24,734,546	4,692,933

27. Related party transactions

The company's immediate parent undertaking is Gaz de France ESS (UK) Ltd, a company registered in England and Wales. Gaz de France Solutions Limited, Gaz de France Sales Limited, Gaz de France Services Limited and Gaz de France Generation Limited are all 100% owned subsidiaries of Gaz de France ESS (UK) Ltd. All of these fellow subsidiary undertakings are registered in England and Wales and consolidated within the financial statements for Gaz de France ESS (UK) Ltd.

The company is dependent on financial support being made available by a group company, Gaz de France International S.A., to enable it to continue in operational existence and to meet its debts as they fall due. Gaz de France International S.A. has authorised and committed sufficient guarantees and letters of support to provide the necessary banking facilities on an ongoing basis.

The ultimate parent undertaking of the group is Gaz de France, a company registered in France. Copies of Gaz de France's group financial statements can be obtained from Gaz de France, 23 rue Philibert Delorme, 75840, Paris, Cedex 17, France.

Notes to the financial statements

at 31 December 2005

27. Related party transactions (continued)

Cofathec Heatsave Limited is a company registered in England and Wales and is a subsidiary of the Gaz de France group, its ultimate parent undertaking is Gaz de France.

Gaz de France Britain Limited is a company registered in England and Wales and is a subsidiary of the Gaz de France group, its ultimate parent undertaking is Gaz de France.

Investment Gas Holland Limited is a fellow subsidiary, with its ultimate parent undertaking also being Gaz de France.

Gaz de France Investment Netherlands Limited is a fellow subsidiary, with its ultimate parent undertaking also being Gaz de France.

Gaselys is a company registered in France and is a Joint Venture between Gaz de France and Société Générale.

2005

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	*£*	*£*	*£*	*£*	*£*
Gaz de France	84,714	4,024,039	-	-	28,938,381	-
Gaselys	5,131,927	439,359,888	-	-	-	77,843,863
Gaz de France Britain Limited	1,692,419	-	-	-	1,325,964	-
Cofathec Heatsave Limited	550,518	-	-	-	327,512	-
Investment Gas Holland Limited	-	-	-	-	-	83,534
Gaz de France ESS (UK) Ltd	-	-	-	1,133,492	-	5,278,702
Gaz de France Solutions Limited	-	472,080	8,254,291	-	182,424,747	-
Gaz de France Sales Limited	4,281,217	-	-	9,009,782	-	224,490,386
Gaz de France Services Limited	-	59	40,977		765,477	-
Gaz de France Generation Limited	27,248,973	34,114,220	144,050	541,754	526,829	9,704,492

2004

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	*£*	*£*	*£*	*£*	*£*
Gaz de France	-	23,397,730			-	3,354,743
Gaselys	27,813,236	201,061,989			2,826,778	54,399,777
Gaz de France Britain Limited	503,370	-			498,720	-
Cofathec Heatsave Limited	309,216	2,804,352			93100	817,639
Investment Gas Holland Limited	362,969	-			362,969	-
Gaz de France ESS (UK) Ltd	-	-		543,339	-	38,105,505
Gaz de France Solutions Limited	-	-			80,394,369	-
Gaz de France Sales Limited	4,351,741	-			-	100,679,069
Gaz de France Services Limited	-	-			725,844	-
Gaz de France Generation Limited	-	-			-	-
Gaz de France Investment Netherlands Limited	468,597	-			468,597	-

Notes to the financial statements

at 31 December 2005

27. Related party transactions (continued)

Terms and conditions of transactions

Sales to Gaz de France represent a recharge for services performed by the company's employees on behalf of Gaz de France.

Purchases from Gaz de France represent purchases of electricity for onward resale to customers, and purchases of gas to be used in the generation of electricity at Shotton Combined Heat and Power Station. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Sales to Gaselys represent the sale of electricity generated at Shotton Combined Heat and Power Station, and are made under terms and conditions comparable with those of an arm's length transaction.

Purchases from Gaselys represent purchases of electricity for onward sale to customers, and purchases of gas to be used in the generation of electricity at Shotton Combined Heat and Power Station. All transactions are made under terms and conditions comparable with those of an arm's length transaction.

Sales to Gaz de France Britain Limited, Investment Gas Holland Limited and Gaz de France Investment Netherlands Limited represent the sale of corporation tax losses.

Sales to Cofathec Heatsave Limited represent the sale of electricity and are made under terms and conditions comparable with those of an arm's length transaction.

Sales to Gaz de France Sales Limited represent the recharge of overheads incurred by the company on behalf of Gaz de France Sales Limited.

Purchases from Gaz de France Solutions Limited represent the recharge of overheads incurred by Gaz de France Solutions on behalf of the company.

Purchases from Gaz de France Generation Limited represent the purchase of electricity generated by Shotton Combined Heat and Power Station, the terms and conditions are comparable with those of an arm's length transaction.

Sales to Gaz de France Generation Limited represent the sale of gas for use in the generation of electricity by Shotton Combined Heat and Power Station, the terms and conditions are comparable with those of an arm's length transaction.

The group operates a bank netting facility between its constituent companies. A Letter of Comfort from Gaz de France International SA held in the name of the company's bankers provides security for this facility (note 16). Cash is transferred between the company accounts in order to ensure all bank covenants are satisfied. The interest receivable and payable from the bank accounts is all transacted through Gaz de France Solutions Limited and then recharged between the constituent companies.

Gaz de France International SA act as joint guarantor with Gaz de France ESS (UK) Ltd on two operating leases (note 26).

Notes to the financial statements

at 31 December 2005

27. Related party transactions (continued)

Terms and conditions of related party balances

Trading balances with related parties do not incur interest charges whilst the balance is within the standard credit terms of the selling company.

Non-trading balances with related parties incur interest at the same rate as that payable by the group on the bank overdraft.

Compensation of key management personnel of the company

	2005 £	*2004* £
Salaries and short-term employee benefits	1,243,775	844,259
Post-employment benefits	32,829	24,418
Share-based payments	113,365	-
	1,389,969	868,677

Notes to the financial statements

at 31 December 2005

28. Transition to IFRS

Reconciliation of equity at 1 January 2004 and 31 December 2004

	UK GAAP 1/1/04		*IFRS 1/1/04*	*UK GAAP 31/12/04*		*IFRS 31/12/04*
	£	£	£	£	£	£
Non-current assets						
Property, plant and equipment	42,060,670	(3,363,925)	38,696,745	37,603,289	(1,878,582)	35,724,707
Intangible assets	-	3,988,214	3,988,214	-	2,502,871	2,502,871
Financial assets	-	-	-	-	-	-
Current assets						
Inventories	77,765	-	77,765	77,765	-	77,765
Trade and other receivables	29,862,586	-	29,862,586	174,243,893	-	174,243,893
Financial assets	-	-	-	-	-	-
Cash on deposit	3,900,000	-	3,900,000	27,849	-	27,849
Cash at bank and in hand	1,942,159	-	1,942,159	4,355,961	-	4,355,961
Current liabilities						
Trade and other payables	90,357,850	-	90,357,850	233,029,002	-	233,029,002
Interest bearing loans and borrowings	-	-	-	4,517,296	-	4,517,296
Financial liabilities	-	-	-	-	-	-
Current tax liability	-	-	-	324	-	324
Provisions	-	624,289	624,289	-	624,289	624,289
Non-current liabilities						
Interest bearing loans and borrowings	-	-	-	-	-	-
Financial liabilities	-	-	-	-	-	-
Net assets	(12,514,670)	-	(12,514,670)	(21,237,865)	-	(21,237,865)
Equity share capital	1	-	1	1	-	1
Retained earnings	(12,514,671)	-	(12,514,671)	(21,237,866)	-	(21,237,866)
Net assets	(12,514,670)	-	(12,514,670)	(21,237,865)	-	(21,237,865)

The adoption of IAS 16 and IAS 37 has resulted in the company recognising a decommissioning provision for the Shotton power plant, which was transferred to Gaz de France Generation Limited on 1 April 2005. An adjustment to the group balance sheet at 1 January 2004 and 31 December 2004 of £624,289 increases property, plant and equipment and creates a provision.

Internally generated computer software comprising of various pricing and billing software has been reclassified from tangible fixed assets under UK GAAP to intangible assets under IFRS. Consequently balances of £3,988,214 and £2,502,871 are reclassified from property, plant and equipment to intangible assets in the group balance sheet at 1 January 2004 and 31 December 2004 respectively.