Registered Number : 2706333

Gaz de France ESS (UK) Ltd

Report and Group Financial Statements

31 December 2005

Registered No. 2706333

Directors
Mr J C Depail (Chairman)
Mr E Stab
Mr L Renat
Mr B Brelle
Mr J Roncato
Mr M B Haestier
Mr T Le Quenven
Mr X Perret

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 group 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 group 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 result for the year ended 31 December 2005 was a loss after taxation of £6,632,388 (2004 - £9,456,301 loss). Included within these results were exceptional costs of £113,146 (2004 - £71,812) arising as a result of a restructuring and relocation of continuing operations and employee share scheme costs.

The directors do not recommend the payment of a dividend.

Principal activities, review of the business and future developments

The principal activities of the group are the generation, purchase, supply and management of natural gas and electricity to industrial and commercial customers.

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

The power generation assets, previously held within Gaz de France Marketing Limited, were transferred to Gaz de France Generation Limited on 1 April 2005.

Directors and their interests

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

Mr J C Depail (Chairman)	
Mr E Stab	
Ms M D Bucher	Resigned 23 March 2005
Mr L Renat	
Mr B Brelle	
Mr J Roncato	
Mr F Guilhamon	Resigned 23 September 2005
Mr M B Haestier	
Mr T Le Quenven	Appointed 23 March 2005
Mr X Perret	Appointed 9 December 2005

The company is a wholly owned subsidiary of a company incorporated outside Great Britain. For this reason, details of the directors' interests are not required to be given in accordance with SI 1985 No. 802.

Supplier payment policy

The group'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.

Directors' report

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 group continues and that appropriate training is arranged. It is the policy of the group that the training, career development and promotion of disabled persons should, as far as possible, be identical with that of other employees.

Employees

The group 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 group. This is achieved through both formal and informal meetings, together with a regular newsletter. During the year employees 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.

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 2004

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; and
- 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 of the group 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 ESS (UK) Ltd

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF GAZ DE FRANCE ESS (UK) LTD

We have audited the group and parent company financial statements (the "financial statements") of Gaz de France ESS (UK) Ltd for the year ended 31 December 2005 which comprise the Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements, the Group and Parent Company Statement of Recognised Income and Expense and the related notes 1 to 32. 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 is 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 group's and 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 ESS (UK) Ltd

Opinion

In our opinion:

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

Ernst & Young LLP

Ernst & Young LLP
Registered auditor
Leeds
28 April 2006

Group income statement

for the year ended 31 December 2005

	Note	2005 £	2004 £
Revenue	5	1,054,249,598	633,168,713
Cost of sales		(1,037,817,792)	(620,516,530)
Gross profit		16,431,806	12,652,183
Administrative expenses - ongoing		(23,897,227)	(22,675,900)
- exceptional	7	(113,146)	(71,812)
Operating loss	6	(7,578,567)	(10,095,529)
Finance income	9	677,035	593,117
Finance costs	10	(1,423,275)	(1,497,566)
Loss before taxation		(8,324,807)	(10,999,978)
Tax credit	11	1,692,419	1,543,677
Loss for the year attributable to equity holders of the parent company	27	(6,632,388)	(9,456,301)

Group 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 group other than the loss for the year ended 31 December 2005 of £6,632,388 (2004 – £9,456,301 loss).

Company 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 group other than the profit for the year ended 31 December 2005 of £2,682,585 (2004 – nil).

Group and company balance sheets

at 31 December 2005

		Group		Company	
	Note	2005 £	2004 £	2005 £	2004 £
Non-current assets					
Property, plant and equipment	13	33,518,771	35,834,324	-	-
Intangible assets	15	5,871,742	6,879,610	-	-
Investments in subsidiaries	14	-	-	3,565,639	3,565,639
Financial assets	24	11,794,876	-	38,105,505	-
Total non-current assets		51,185,389	42,713,934	41,671,144	3,565,639
Current assets					
Inventories	17	829,436	77,765	-	-
Trade and other receivables	18	214,442,445	160,192,102	76,242,230	71,033,582
Financial assets	24	28,925,003	-	-	-
Current tax asset	19	834	510	-	-
Cash on deposit	20	13,300,000	27,849	-	-
Cash at bank and in hand	20	17,634,185	4,356,966	-	-
Total current assets		275,131,903	164,655,192	76,242,230	71,033,582
Current liabilities					
Trade and other payables	21	195,938,376	143,362,474	986,067	354,499
Current tax liability	19	324	-	-	-
Financial liabilities	22	68,925,003	13,707,095	40,000,000	-
Provisions	23	5,907,840	-	-	-
Total current liabilities		270,771,543	157,069,569	40,986,067	354,499
NET CURRENT ASSETS		4,360,360	7,585,623	35,256,163	70,679,083
Non-current liabilities					
Financial liabilities	22	34,544,876	22,750,000	22,750,000	22,750,000
Provisions	23	675,231	624,289	-	-
Total non-current liabilities		35,220,107	23,374,289	22,750,000	22,750,000
NET ASSETS		20,325,642	26,925,268	54,177,307	51,494,722
Capital and reserves					
Equity share capital	26	51,900,792	51,900,792	51,900,792	51,900,792
Retained earnings	27	(31,575,150)	(24,975,524)	2,276,515	(406,070)
TOTAL EQUITY	27	20,325,642	26,925,268	54,177,307	51,494,722

J C Depail
Director

31 March 2006

Cash flow statements

for the year ended 31 December 2005

	Note	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Operating activities					
Operating loss		(7,578,567)	(10,095,529)	-	-
Adjustments to reconcile operating profit to net cash flows from operating activities					
Depreciation of property, plant and equipment		4,631,907	4,949,771	-	-
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)/decrease in inventories		(751,671)	534,704	-	-
Decrease/(increase) in trade and other receivables		(54,160,699)	(82,671,169)	(1,539,996)	(117,306)
(Increase) in financial assets		(40,719,879)	-	(38,105,505)	(1)
Increase/(decrease) in payables		52,576,945	81,803,807	(354,499)	117,307
Increase in financial liabilities		80,719,879	-	40,000,000	-
Increase in provisions		5,283,551	-	-	-
Cash generated from operations		41,982,664	(3,666,284)	-	-
Tax received		1,654,510	235,528	-	-
Interest paid		(749,087)	(1,436,206)	-	-
Interest received		625,300	593,117	-	-
Net cash flows from operating activities		43,513,387	(4,273,845)	-	-
Cash flows from investing activities					
Purchase of property, plant and equipment and intangible assets		(3,158,809)	(2,106,968)	-	-
Net cash flows used in investing activities		(3,158,809)	(2,106,968)	-	-
Cash flows from financing activities					
Share-based payments		(98,113)	-	-	-
Finance lease principal payments		-	(25,500)	-	-
Net cash flows used in financing activities		(98,113)	(25,500)	-	-
Net Increase/(decrease) in cash and cash equivalents		**40,256,465**	**(6,406,313)**	-	-
Cash and cash equivalents at 1 January		**(9,322,280)**	**(2,915,967)**	-	-
Cash and cash equivalents at 31 December	**20**	**30,934,185**	**(9,322,280)**	-	-

Notes to the financial statements

at 31 December 2005

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

The group and company financial statements of Gaz de France ESS (UK) Ltd (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 sheets were signed on the board's behalf by J C Depail. Gaz de France ESS (UK) Ltd is a private limited company incorporated and domiciled in England & Wales.

The group's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs). 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 group and by the company are set out in notes 2, 3 and 4.

The company has taken advantage of the exemption provided under section 230 of the Companies Act 1985 not to publish its individual income statement and related notes.

Going concern

The company is dependent on financial support being made available by its immediate parent 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 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.

2. Accounting policies

Basis of Preparation

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

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

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

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

- IFRS 3 Business Combinations and IAS 36 (revised) Impairment of Assets
- IAS 7 Cash Flow Statements
- 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 Notes 31 and 32.

IFRS 3 Business Combinations, IAS 36 (revised) Impairment of Assets and IAS 38 (revised) Intangible Assets.

Notes to the financial statements

at 31 December 2005

2. Accounting policies (continued)

The adoption of IFRS 3 and IAS 36 (revised) has resulted in the group ceasing annual goodwill amortisation and commencing testing for impairment at the cash generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2004. An adjustment to the group balance sheet at 31 December 2004 of £235,824 reverses the amortisation of goodwill charged in that year under UK GAAP. The adjustment increases intangible assets and retained earnings by £235,824.

IAS 7 Cash Flow Statements

In accordance with IAS 7 Cash Flow Statements the company has disclosed its cash flows from operating activities using the indirect method.

IAS 32 Financial Instruments: Disclosure and Presentation

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

Accounting policies applied in the year ended 31 December 2004

As noted above, the group and the company adopted IAS 32 and IAS 39 with effect from 1 January 2005, and as permitted under IFRS 1 the group and the company have 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 group and the company:

Derivative instruments

Certain companies within the group enter 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, those companies 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.

IAS 38 (revised) Intangible Assets

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. The net book value at 1 January 2004 of the assets reclassified was £3,988,214.

Notes to the financial statements

at 31 December 2005

2. Accounting policies (continued)

IAS 39 Financial Instruments: Recognition and Measurement

Prior to 31 December 2005, certain companies within the group 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 £40,719,879.

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

Basis of consolidation

The group financial statements consolidate the financial statements of Gaz de France ESS (UK) Ltd and its subsidiary undertakings drawn up to the 31 December. With the exception of Gaz de France Generation Limited, the financial statements of the subsidiaries are prepared for the same reporting year as the parent company, using consistent accounting policies. Gaz de France Generation Limited prepared its first financial statements for the 63 week period to the 31 December 2005, following its incorporation on 15th October 2004.

All intra-company balances, and transactions, are eliminated.

3. Significant accounting judgements and estimates

Judgements

In the process of applying the group'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.

Estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

Impairment of Goodwill

The group determines whether goodwill is impaired on at least an annual basis. This requires an estimation of the value in use of the cash-generating unit to which the goodwill is allocated. Estimating the value in use requires the group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. More details are given in Note 4.

Notes to the financial statements

at 31 December 2005

4. Summary of significant accounting policies

Property, plant and equipment

Property, plant and equipment are shown at cost less accumulated amortisation 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 and improvements	-	over the shorter of the period of the lease and the estimated remaining life of the Power plant (23 years)
Plant & machinery	-	over the shorter of the individual asset life and the estimated remaining life of the power plant (3 – 23 years)
Fixtures, fittings and office equipment	-	3 years
IT equipment & intangibles	-	3 years to 5 years
Motor vehicles	-	5 years
Dismantling liability	-	over the shorter of the period of the lease and the estimated remaining life of the power plant (23 years)

Goodwill

Business combinations on or after 1 January 2004 are accounted for under IFRS 3 using the purchase method. Any excess of the cost of the business combination over the group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities is recognised in the balance sheet as goodwill and is not amortised. To the extent that the net fair value of the acquired entity's identifiable assets, liabilities and contingent liabilities is greater than the cost of the investment, a gain is recognised immediately in the income statement. Goodwill recognised as an asset as at 31 December 2003 is recorded at its carrying amount under UK GAAP and is not amortised. Any goodwill asset arising on the acquisition of equity accounted entities is included within the cost of those entities.

After initial recognition, goodwill is stated at cost less any accumulated impairment losses, with the carrying value being reviewed for impairment, at least annually and whenever events or changes in circumstances indicate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill is allocated to the related cash-generating units monitored by management, usually at business segment level or statutory company level as the case may be. Where the recoverable amount of the cash-generating unit is less than its carrying amount, including goodwill, an impairment loss is recognised in the income statement.

The carrying amount of goodwill allocated to a cash-generating unit is taken into account when determining the gain or loss on disposal of the unit, or of an operation within it. Goodwill arising on acquisitions prior to 31 December 1997 remains set off directly against reserves even if the related investment becomes impaired or the business is disposed of.

Notes to the financial statements

at 31 December 2005

4. Summary of significant accounting policies (continued)

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 and before being brought into use.

Impairment of assets

The group 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 group 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.

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.

Investments

Fixed asset investments in subsidiaries are included in the financial statements at cost, less provision for impairment. The carrying values of fixed assets are reviewed for impairment in the periods when events or changes in circumstances indicate that the carrying value may not be recoverable. An impairment loss is provided for in the current period profit and loss account when the carrying value of the assets exceeds their estimated recoverable amount. The estimated recoverable amount is defined as the higher of the net realisable value and the value in use. The value in use is determined by reference to estimated future discounted cash flows.

Notes to the financial statements

at 31 December 2005

4. Summary of significant accounting policies (continued)

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 group and the company determine 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 2, the company have 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 group or 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 group or 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.

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.

Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at banks 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.

Notes to the financial statements

at 31 December 2005

4. Summary of significant accounting policies (continued)

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 group or 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 group 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 group or 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 group or 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 group's or 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

4. Summary of significant accounting policies (continued)

Derivative financial instruments and hedging

Certain companies within the group enter 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 group or 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.

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.

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.

Notes to the financial statements

at 31 December 2005

4. Summary of significant accounting policies (continued)

Provisions

A provision is recognised when the group 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 group 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.

Services

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group, the revenue can be reliably measured and the risks and rewards of the supply has passed to the buyer.

Finance Income

Revenue is recognised as interest accrues.

Operating leases

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

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 recognised in the income statement in the period in which they become payable.

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

4. Summary of significant accounting policies (continued)

Exceptional Items

The group presents as exceptional items on the face of the income statement, those material items of income and expense which, because of the nature 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

4. Summary of significant accounting 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.

5. Revenue

Revenue represents amounts derived from the group'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 group.

6. Operating loss

The group operating loss is stated after charging:

	2005	*2004*
	£	*£*
Change in fair value of certain wholesale purchase contracts	(40,719,879)	-
Change in fair value of amounts due to/from customers in respect of certain supply contracts	40,719,879	-
Depreciation:		
owned assets	4,631,907	4,909,771
assets held under finance leases	-	40,000
Amortisation of Intangible assets	1,848,104	1,812,132
Loss on disposal of property, plant and equipment	2,219	-
Auditors' remuneration in respect of - audit services	98,400	74,000
- non-audit services	44,000	90,000
Operating lease rentals - property	421,101	207,106
- others	157,532	48,232

7. Exceptional items

	2005	*2004*
	£	*£*
Cost of restructuring and relocating continuing operations	71,544	(71,812)
Cost of employee share scheme	(184,690)	-
	(113,146)	(71,812)

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 provisions no longer required.

Notes to the financial statements

at 31 December 2005

7. 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 is shown in this note and detailed more fully in note 25.

8. Directors remuneration and staff costs

	2005	*2004*
	£	*£*
Wages and salaries	5,206,504	4,566,672
Social security costs	564,135	476,509
Other pension costs	172,780	191,193
	5,943,419	5,234,374

The monthly average number of employees (including directors) during the year was 160 (2004 - 145).

	2005	*2004*
	Number	*Number*
Sales and Marketing	48	40
Administration	112	105
	160	145

Directors emoluments:	2005	2004
	£	*£*
Emoluments	163,164	146,667
Company contribution paid to defined benefit contribution scheme	-	-
Company contribution paid to parent company defined benefit pension scheme	19,082	27,618

Notes to the financial statements

at 31 December 2005

8. Directors remuneration and staff costs (continued)

	2005 *Number*	2004 *Number*
Members of defined contribution scheme	-	-
Members of parent company pension scheme	1	1

Highest paid director:	2005 £	2004 £
Emoluments	163,164	146,667
Company contribution paid to defined benefit contribution scheme	-	-
Company contribution paid to parent company scheme	19,082	27,618

9. Finance Income

	2005 £	2004 £
Interest receivable for late payment	235,370	-
Bank interest receivable	441,665	593,117
	677,035	593,117

10. Finance cost

	2005 £	2004 £
Bank loans, overdrafts and other loans repayable within 5 years	386,266	290,136
Finance lease interest	-	1,000
On loans from group undertakings	986,067	1,206,430
Discount charge for decommissioning liability	50,942	-
	1,423,275	1,497,566

Notes to the financial statements

at 31 December 2005

11. Taxation

	2005 £	2004 £
(a) Tax credit		
UK corporation tax		
UK corporation tax on profits of the year	-	-
Group relief recoverable	(1,439,000)	(498,720)
Adjustments in respect of previous periods	(253,419)	(1,044,957)
Tax credit in the income statement	(1,692,419)	(1,543,677)

	2005 £	2004 £
(b) Reconciliation of tax credit		
Loss before tax	(8,324,807)	(10,999,978)
Loss multiplied by standard rate of corporation tax of 30%	(2,497,443)	(3,299,994)
Adjustments in respect of prior periods	(253,419)	(1,044,957)
Tax effect of non-deductible amortisation and impairment of goodwill	-	-
Tax effect of non-deductible or non-taxable items	577,984	362,242
Transfers to unrecognised tax assets	480,459	2,439,032
Tax credit	(1,692,419)	(1,543,677)

(c) Factors affecting future tax charges

The company has deductible temporary differences of £12,983,681 (2004 £6,555,575) and tax losses of £7,355,554 (2004 £13,330,473) to be carried forward indefinitely and offset against future taxable profits.

A net deferred tax asset of £6,101,774 (2004 £5,965,814) in respect of deductible temporary differences and tax losses has not been recognised due to uncertainty of future taxable profits.

12. Profit attributable to members of the parent company

The profit for the financial year dealt with in the financial statements of the parent company was £2,682,585 (2004 – £nil). As permitted by section 230 of the Companies Act 1985, no separate income statement is presented in respect of the parent company.

Notes to the financial statements

at 31 December 2005

13. Property, plant and equipment

Group	*Long Leasehold Property*	*Plant & Machinery*	*Fixtures, fittings and office equipment*	*IT software and equipment*	*Motor vehicles*	*Total*
		£	£	£	£	£
Cost						
At 1 Jan 2005	1,278,132	37,941,514	1,519,446	1,026,335	50,000	41,815,427
Additions	5,211	1,530,599	261,021	521,742	-	2,318,573
Disposals	-	(433,891)	-	(5,819)	-	(439,710)
At 31 Dec 2005	1,283,343	39,038,222	1,780,467	1,542,258	50,000	43,694,290
Accumulated depreciation						
At 1 Jan 2005	55,780	4,188,599	1,061,823	662,496	12,405	5,981,103
Charge for the year	51,386	3,943,361	166,595	460,547	10,018	4,631,907
Disposals	-	(433,891)	-	(3,600)	-	(437,491)
At 31 Dec 2005	107,166	7,698,069	1,228,418	1,119,443	22,423	10,175,519
Net book amount						
At 31 Dec 2005	1,176,177	31,340,153	552,049	422,815	27,577	33,518,771
Cost						
At 1 Jan 2004	1,212,807	37,265,977	1,503,930	968,578	50,000	41,001,292
Additions	65,325	1,641,580	15,516	57,757	-	1,780,178
Disposals	-	(966,043)	-	-	-	(966,043)
At 31 Dec 2004	1,278,132	37,941,514	1,519,446	1,026,335	50,000	41,815,427
Accumulated depreciation						
At 1 Jan 2004	10,318	950,083	813,108	221,366	2,500	1,997,375
Charge for the year	45,462	4,204,559	248,715	441,130	9,905	4,949,771
Disposals	-	(966,043)	-	-	-	(966,043)
At 31 Dec 2004	55,780	4,188,599	1,061,823	662,496	12,405	5,981,103
Net book amount						
At 31 Dec 2004	1,222,352	33,752,915	457,623	363,839	37,595	35,834,324

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

Company

The company has no property, plant and equipment.

Notes to the financial statements

at 31 December 2005

14. Investments in subsidiaries

Company

Shares in subsidiary undertakings	*Total* £
Cost	
At 1 January 2005	3,565,639
Additions	-
At 31 December 2005	3,565,639

The company's subsidiary undertakings at 31 December 2005 are listed below:

Held directly	*Country of incorporation*	*Class of shares held*	*Proportion held by the company*
Gaz de France Solutions Limited (1)	England and Wales	Ordinary	100%
Gaz de France Sales Limited (1)	England and Wales	Ordinary	100%
Gaz de France Marketing Limited (1)	England and Wales	Ordinary	100%
Gaz de France Services Limited (2)	England and Wales	Ordinary	100%
Gaz de France Generation Limited (3)	England and Wales	Ordinary	100%

(1) The principal activities of the subsidiaries are the purchase, supply and management of natural gas and electricity to industrial and commercial customers.

(2) The principal activity of the subsidiary is the provision of services to fellow group undertakings.

(3) The principal activity of the subsidiary is the generation of electricity.

Notes to the financial statements

at 31 December 2005

15. Intangible assets

31 December 2005	*Application Software*	*Goodwill*	*Total*
	£	£	£
Cost			
At 1 January 2005	5,946,259	4,376,739	10,322,998
Additions	840,236	-	840,236
At 31 December 2005	6,786,495	4,376,739	11,163,234
Aggregate Amortisation			
At 1 January 2005	3,443,388	-	3,443,388
Charge for the period	1,848,104	-	1,848,104
At 31 December 2005	5,291,492	-	5,291,492
Net Book Amount			
At 31 December 2005	1,495,003	4,376,739	5,871,742
Cost			
At 1 January 2004	5,619,470	4,376,739	9,996,209
Additions	326,789	-	326,789
At 31 December 2004	5,946,259	4,376,739	10,322,998
Aggregate Amortisation			
At 1 January 2004	1,631,256	-	1,631,256
Charge for the period	1,812,132	-	1,812,132
At 31 December 2004	3,443,388	-	3,443,388
Net Book Amount			
At 31 December 2004	2,502,871	4,376,739	6,879,610

Goodwill is no longer amortised but is now subject to an annual impairment review. Goodwill was previously being written off in equal instalments over its estimated economic life of 20 years. The adoption of IFRS3 has resulted in the annual charge for amortisation in 2004 of £235,824 being reversed in full, which has had the effect of increasing the net carrying amount of goodwill and reserves at 31 December 2004 by £235,824.

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 has been included within administrative expenses.

Notes to the financial statements

at 31 December 2005

16. Impairment testing of goodwill with an indefinite life

Goodwill acquired through business combinations has been allocated to Retail Supply Business cash-generating unit for impairment testing. The recoverable amount of the Retail Supply Unit has been determined based upon a value in use calculation. To calculate this, cash flow projections are based on financial budgets approved by senior management covering a 5 year period together with extrapolated cash flow projections for a further 10 years.

The Directors feel that a period of greater than 5 years is justified when calculating the value in use as the Retail Supply Business is in the start up phase of its life cycle. A growth rate of 1.8% has been used to extrapolate the cash flow projections beyond the period covered by the approved budgets, and a discount rate of 10.17% has been applied to the cash flows.

17. Inventories

	2005	*2004*
	£	*£*
Fuel Oil	294,578	77,765
Levy Exempt Certificates	534,858	-
	829,436	77,765

During the year, the group expensed £15,618 (2004 - £nil) of fuel oil and £10,367,113 (2004 - £3,726,447) of Levy Exempt Certificates.

18. Trade and other receivables

	Group		*Company*	
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Trade receivables	82,938,809	118,834,707	-	-
Amounts owed by group undertakings	2,540,177	34,914,323	-	-
Amounts owed by subsidiary undertakings	-	-	76,242,230	71,033,582
Other debtors	-	3,579,976	-	-
Prepayments and accrued income	128,926,436	684,672		-
Other taxes and social security	37,023	2,178,424	-	-
	214,442,445	160,192,102	76,242,230	71,033,582

Notes to the financial statements

at 31 December 2005

19. Current tax assets/(liabilities)

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Corporation Tax – payable	(324)	-	-	-
Corporation Tax – receivable	834	510	-	-

20. Cash and short-term deposits

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Cash at bank and in hand	17,634,185	4,356,966	-	-
Short-term deposits	13,300,000	27,849	-	-
	30,934,185	4,384,815	-	-

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 three months depending on the immediate cash requirements of the group, and earn interest at the respective short-term deposit rates.

The group operates a netting banking facility between its constituent companies. A Letter of Comfort from Gaz de France International SA and a debenture and cash cover held in the name of the company's bankers provides security for this facility.

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

	Group 2005 £	Group 2004 £	Company 2005 £	Company 2004 £
Cash at bank and in hand	17,634,185	4,356,966	-	-
Short-term deposits	13,300,000	27,849	-	-
Short-term borrowings	-	(13,707,095)	-	-
	30,934,185	(9,322,280)	-	-

Notes to the financial statements

at 31 December 2005

21. Trade and other payables

	Group		Company	
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Trade creditors	23,028,457	1,627,545	-	-
Amounts owed to group undertakings	122,010,480	107,171,304	986,067	354,499
Other creditors	-	35,715	-	-
Other taxation and social security	29,811,704	18,266,745	-	-
Accruals and deferred income	21,087,735	16,261,165	-	-
	195,938,376	143,362,474	986,067	354,499

22. Financial liabilities

	Group		Company	
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Current				
Gaz de France intercompany facility	40,000,000	-	40,000,000	-
Short term borrowings	-	13,707,095	-	-
Amounts due to customers in respect of certain supply contracts	28,925,003	-	-	-
	68,925,003	13,707,095	40,000,000	-
Non-current				
Amounts owed to parent undertaking	22,750,000	22,750,000	22,750,000	22,750,000
Amounts due to customers in respect of certain supply contracts	11,794,876	-	-	-
	34,544,876	22,750,000	22,750,000	22,750,000

(a) The bank loans and overdrafts are secured by a Letter of Comfort from Gaz de France International SA. The interest rate charged on the short term borrowings is Barclays Base Rate + 1%.

(b) The Gaz de France intercompany facility is a facility provided by the ultimate parent company. The interest rate charged on these borrowings is SONIA (Sterling Overnight Index Average) + 0.08%.

(c) The amounts owed to parent undertaking represent a loan from Gaz de France repayable over 4 years to 2009. The interest rate charged on these borrowings is 3 month LIBOR + 0.35%.

Please refer to note 24 for further details of amounts due to customers in respect of certain supply contracts.

Notes to the financial statements

at 31 December 2005

23. Provisions

Group	*Onerous Contracts* £	*Decomm-issioning* £	*Total* £
At 1 January 2005	-	624,289	624,289
Arising during the year	5,907,840	50,942	5,958,782
At 31 December 2005	5,907,840	675,231	6,583,071
Current 2005	5,907,840	-	5,907,840
Non-current 2005	-	675,231	675,231
	5,907,840	675,231	6,583,071
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.

Decommissioning costs

Provision is made for the net present value of the estimated cost of decommissioning the power plant within Gaz de France Generation Limited over the remaining life of 23 years.

Changes in these estimates and changes to discount rates are dealt with prospectively. When this provision gives access to future economic benefits, a decommissioning asset is recognised. The decommissioning asset for the power station is amortised in equal annual instalments over the useful life of the facility. The unwinding of the discount on the provision is included in the income statement within finance costs.

24. Financial instruments

The group'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).

Notes to the financial statements

at 31 December 2005

24. Financial instruments (continued)

Interest rate risk profile of financial assets and liabilities

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

Group

Year ended 31 December 2005	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	£	£	£	£	£	£
Cash and short term deposits	30,934,185	-	-	-	-	30,934,185
Amounts owed by group undertakings	2,540,177	-	-	-	-	2,540,177
Gaz de France intercompany facility	40,000,000	-	-	-	-	40,000,000
Amounts owed to group undertakings	122,010,480	-	-	-	-	122,010,480
Amounts owed to parent undertaking	2,750,000	6,000,000	6,000,000	8,000,000	-	22,750,000

Year ended 31 December 2004	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	£	£	£	£	£	£
Cash and short term deposits	4,384,815	-	-	-	-	4,384,815
Amounts owed by group undertakings	34,914,323	-	-	-	-	34,914,323
Short term borrowings	13,707,095	-	-	-	-	13,707,095
Amounts owed to group undertakings	107,171,304	-	-	-	-	107,171,304
Amounts owed to parent undertaking	-	2,750,000	6,000,000	6,000,000	8,000,000	22,750,000

Company

Year ended 31 December 2005	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	£	£	£	£	£	£
Amounts owed by fellow subsidiary undertakings	76,242,230	38,105,505	-	-	-	114,347,735
Gaz de France intercompany facility	40,000,000	-	-	-	-	40,000,000
Amounts owed to group undertakings	986,067	-	-	-	-	986,067
Amounts owed to parent undertaking	2,750,000	6,000,000	6,000,000	8,000,000	-	22,750,000

Notes to the financial statements

at 31 December 2005

24. Financial instruments (continued)

Company

Year ended 31 December 2004	Within 1year	1-2 years	2-3 years	3-4 years	4-5 years	Total
	£	£	£	£	£	£
Amounts owed by fellow subsidiary undertakings	71,033,582	-	-	-	-	71,033,582
Amounts owed to group undertakings	354,499	-	-	-	-	354,499
Amounts owed to parent undertaking	-	2,750,000	6,000,000	6,000,000	8,000,000	22,750,000

All of these financial 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 group and 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 group or the company. The maximum credit risk exposure relating to financial assets is represented by carrying value as at the balance sheet date.

Fair values of financial assets and financial liabilities

Set out below is a is a comparison by category of carrying amounts and fair values of all of the group and the company's financial instruments, 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

24. Financial instruments (continued)

	Group		*Company*	
	2005	*2004*	*2005*	*2004*
	£	*£*	*£*	*£*
Financial Assets				
Cash and short term deposits	30,934,185	4,384,815	-	-
Amounts owed by group undertakings	2,540,177	34,914,323	-	-
Amounts owed by fellow subsidiary undertakings	-	-	76,242,230	71,033,582
Fair value adjustment of certain wholesale purchase commitments*				
- current	28,925,003	-	-	-
- non-current	11,794,876	-	-	-
Financial Liabilities				
Amounts due to customers in respect of certain supply contracts*				
- current	28,925,003	-	-	-
- non-current	11,794,876	-	-	-
Gaz de France intercompany facility	40,000,000	-	40,000,000	-
Short term borrowings	-	13,707,095	-	-
Amounts owed to group undertakings	122,010,480	107,171,304	986,067	354,499
Amounts owed to parent undertaking	22,750,000	22,750,000	22,750,000	22,750,000

*see note on fair value hedges below

Hedges

Fair value hedges

Certain companies within the group enter 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, those companies 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 4 and note 6).

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

Neither the group nor the company enters into cash flow hedges or hedges of a net investment in a foreign operation.

Notes to the financial statements

at 31 December 2005

25. 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.

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.

Notes to the financial statements
at 31 December 2005

25. Share based payments (continued)

	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.

26. Authorised and issued share capital

	2005 £	2004 £
Authorised		
52,500,000 ordinary shares of £1 each	52,500,000	52,500,000
Called up, allotted and fully paid		
51,900,972 ordinary shares of £1 each	51,900,792	51,900,792

27. Reconciliation of movements in equity

Group

	Equity Share Capital £	*Retained Earnings* £	*Total Equity* £
At 1 January 2004	51,900,792	(15,519,223)	36,381,569
Loss for the year	-	(9,456,301)	(9,456,301)
At 31 December 2004	51,900,792	(24,975,524)	26,925,268
Loss for the year	-	(6,632,388)	(6,632,388)
Share based payment	-	130,875	130,875
Employer contribution to share based payment	-	(98,113)	(98,113)
At 31 December 2005	51,900,792	(31,575,150)	20,325,642

Notes to the financial statements

at 31 December 2005

27. Reconciliation of movements in equity (continued)

Company

	Equity Share Capital	*Retained Earnings*	*Total Equity'*
	£	*£*	*£*
At 1 January 2004	51,900,792	(406,070)	51,494,722
Result for the year	-	-	-
At 31 December 2004	51,900,792	(406,070)	51,494,722
Profit for the year	-	2,682,585	2,682,585
At 31 December 2005	51,900,792	2,276,515	54,177,307

28. 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 – £191,193). At 31 December 2005, contributions of £nil (2004 – £nil) were unpaid.

29. Other financial commitments

(i) Operating leases

The group 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	151,999	122,695
After one year but not more than five	1,910,380	1,910,380	172,317	324,316
After five years	2,635,631	3,017,707	-	-
	4,928,087	5,310,163	324,316	447,011

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

The company has not entered into any non-cancellable operating leases.

Notes to the financial statements

at 31 December 2005

29. Other financial commitments (continued)

(ii) Gas purchase commitments

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

	2005	*2004*
	£	*£*
Not later than one year	249,456,762	154,222,096
After one year but not more than five	70,274,246	20,147,631
After five years	-	-
	319,731,008	174,369,727

(iii) Electricity purchase commitments

At 31 December 2005 the group 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	18,841,170
After five years	-	-
	337,267,333	254,374,680

30. Related party transactions

The consolidated financial statements include the financial statements of Gaz de France ESS (UK) Ltd and the subsidiaries listed in the following table:

	% equity interest	
	2005	*2004*
Gaz de France Solutions Limited	100	100
Gaz de France Sales Limited	100	100
Gaz de France Marketing Limited	100	100
Gaz de France Services Limited	100	100
Gaz de France Generation Limited	100	100

The company's immediate parent undertaking is Gaz de France International SA, a company registered in France.

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

Notes to the financial statements

at 31 December 2005

30. Related party transactions (continued)

The ultimate parent undertaking of the group of undertakings for which group financial statements are drawn up, and of which the company is a member, 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.

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.

Company

2005

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	£	£	£	£	£
Gaz de France	-	-	-	986,067	-	986,067
Gaz de France (Current Loan)	-	-	-	-	-	40,000,000
Gaz de France (Non-Current Loan)	-	-	-	-	-	22,750,000
Gaz de France Solutions Limited	-	-	482,458	-	69,158,330	-
Gaz de France Sales Limited	-	-	449,095	-	201,593	-
Gaz de France Marketing Limited	-	-	1,133,492	-	5,278,702	-
Gaz de France Generation Limited	-	-	1,603,607	-	1,603,606	-
Gaz de France Generation Limited (Non-Current Loan)	-	-	-	-	38,105,505	-

2004

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	£	£	£	£	£
Gaz de France	-	-	-	1,206,430	-	354,498
Gaz de France (Non-Current Loan)	-	-	-	-	-	22,750,000
Gaz de France Solutions Limited	-	-	49,063	-	28,097,616	-
Gaz de France Sales Limited	-	-	614,027	-	190,820	-
Gaz de France Marketing Limited	-	-	543,339	-	38,105,505	-

Terms and conditions of transactions

Notes to the financial statements

at 31 December 2005

30. Related party transactions (continued)

Interest payable to Gaz de France represents interest charged on current and non-current loans, the rate charged on these balances is equal to 3 month LIBOR + 0.35%.

Interest receivable from the company's subsidiaries represents amounts charged on Intercompany balances, the rate charged on these balances is equal to Barclays Base Rate + 1.00%.

Group

2005

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	£	£	£	£	£
Gaz de France	70,585	376,192,337	-	-	-	35,119,239
Gaz de France (current loan)	-	-	-	12,676	-	40,000,000
Gaz de France (non-current loan)	-	-	-	937,391	-	22,750,000
Gaselys	32,072,489	513,399,600	-	-	-	86,693,895
Gaz de France Britain Limited	1,692,419	-	-	-	1,439,000	-
Cofathec Heatsave Limited	2,726,098	2,293,299	-	-	1,101,177	-
Investment Gas Holland Limited	-	197,346	-	-	-	197,346

2004

	Sales	*Purchases*	*Interest receivable*	*Interest payable*	*Amount owed from*	*Amount owed to*
	£	£	£	£	£	£
Gaz de France	-	304,081,339	-	-	-	47,491,177
Gaz de France (current loan)	-	-	-	-	-	-
Gaz de France (non-current loan)	-	-	-	1,266,678		22,750,000
Gaselys	27,813,236	209,152,155	-	-	2,826,778	55,988,836
Gaz de France Britain Limited	635,433	-	-	-	498,720	-
Cofathec Heatsave Limited	1,018,496	2,804,352	-	-	230,299	817,639
Gaz de France Investment Netherlands Limited	539,456	-	-	-	468,597	-
Investment Gas Holland Limited	362,969	-	-	-	433,828	-

Terms and conditions of transactions

The sales to and purchases from Gaz De France and Gaselys are based upon market prices and all balances are due within the month after the month of the delivery, the terms and conditions are comparable with an arm's length transaction.

The transactions with Cofathec Heatsave Limited are made at normal prices and with terms and conditions comparable with an arm's length transactions.

Gaz de France International SA act as joint guarantor with Gaz de France ESS (UK) Ltd on three operating leases (note 29).

The group operates a netting banking facility between its constituent companies. A Letter of Comfort from Gaz de France International SA and a debenture and cash cover held in the name of the company's bankers provides security for this facility (note 20).

Notes to the financial statements

at 31 December 2005

30. Related party transactions (continued)

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

Purchases from Gaz de France represent purchases of electricity and gas 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.

Interest payable to Gaz de France represents interest charged on current and non-current loans, the rate charged on these balances is equal to 3 month LIBOR + 0.35%.

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.

Compensation of key management personnel of the group

	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

31. Transition to IFRS

Reconciliation of group 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 & equipment	42,367,842	(3,363,925)	39,003,917	37,712,907	(1,878,582)	35,834,325
Financial assets	-	-	-	-	-	-
Intangible assets	4,376,739	3,988,214	8,364,953	4,140,915	2,738,695	6,879,610
Current assets						
Inventories	612,469	-	612,469	77,765	-	77,765
Trade & other receivables	76,219,114	-	76,219,114	160,192,102	-	160,192,102
Corporation tax	-	-	-	510	-	510
Cash on deposit	3,900,000	-	3,900,000	27,849	-	27,849
Cash at bank & in hand	2,874,614	-	2,874,614	4,356,966	-	4,356,966
Current liabilities						
Trade & other payables	61,528,628	-	61,528,628	143,362,475	-	143,362,475
Interest bearing loans & borrowings	9,690,581	-	9,690,581	13,707,095	-	13,707,095
Provisions	-	624,289	624,289	-	624,289	624,289
Non-current liabilities						
Interest bearing loans & borrowings	22,750,000	-	22,750,000	22,750,000	-	22,750,000
Net assets	36,381,569	-	36,381,569	26,689,444	235,824	26,925,268
Issued share capital	51,900,792	-	51,900,792	51,900,792	-	51,900,792
Other reserves	(15,519,223)	-	(15,519,223)	(25,211,348)	235,824	(24,975,524)
Total shareholders equity	36,381,569	-	36,381,569	26,689,444	235,824	26,925,268

The adoption of IFRS 3 and IAS 36 (revised) has resulted in the group ceasing annual goodwill amortisation and commencing testing for impairment at the cash generating unit level annually (unless an event occurs during the year which requires the goodwill to be tested more frequently) from 1 January 2004. An adjustment to the group balance sheet as at 31 December 2004 of £235,824 reverses the amortisation of goodwill charged in that year under UK GAAP. The adjustment increase intangible assets and retained earnings by £235,824.

The adoption of IAS 16 and IAS 37 has resulted in the group recognising a decommissioning provision relating to the Shotton Combined Heat and Power Station. Please see note 23 for further details. An adjustment to the group balance sheet at 1 January 2004 and 31 December 2004 of £624,289 increases property, plant and equipment and provisions.

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.

Notes to the financial statements

at 31 December 2005

32. Transition to IFRS

Reconciliation of loss for the year ended 31 December 2004

	UK GAAP 31/12/04		*IFRS 31/12/04*
	£	£	£
Revenue	633,168,713	-	633,168,713
Cost of sales	(620,516,530)	-	(620,516,530)
Gross Profit	12,652,183	-	12,652,183
Administrative expenses - ongoing	(22,911,724)	235,824	(22,675,900)
- exceptional	(71,812)	-	(71,812)
Operating loss	(10,331,353)	235,824	(10,095,529)
Interest receivable	593,117	-	593,117
Interest payable and similar charges	(1,497,566)	-	(1,497,566)
Loss before taxation	(11,235,802)	235,824	(10,999,978)
Tax credit	1,543,677	-	1,543,677
Loss for the financial year	(9,692,125)	235,824	(9,456,301)

An adjustment to the group income statement for the year ended 31 December 2004 of £235,824 reverses the amortisation of goodwill charged in that year under UK GAAP.