

# **ACCORD ENERGY LIMITED**

## **Annual Report and Accounts**

**for the year ended**

**31 December 2005**



**Registered No: 2877398**

# Accord Energy Limited

## Directors' report

The Directors present their report and the audited financial statements of Accord Energy Limited (the "Company") for the year ended 31 December 2005.

## Principal activities and review of business

The principal activity of the Company in the year was the wholesale trading of physical energy products and the trading of energy related derivative products. The main products traded in the year were natural gas, electricity and emissions certificates.

## Future developments

The Directors expect the Company to continue to trade physical energy products and energy related derivative products for the foreseeable future.

## Financial results and dividends

The profit and loss account is set out on page 7. The net trading income in the year was £53.8m (2004: £17.2m). The Company reported an operating profit of £48.4 million (2004: £21.4 million). Retained earnings transferred to reserves were £53.7 million (2004: £23.9 million) following net interest receipts of £2.8 million (2004: £11.9 million).

No dividends were paid for the year ended 31 December 2005 (2004: Nil).

## Directors

The following served as Directors during the year:

Mr P K Bentley	
Mr I Mannan	(appointed 21 March 2005)
Mr J S Ulrich	(appointed 21 March 2005)
Mr I Wood	(appointed 21 March 2005)
Sir Roy Gardner	(resigned 21 March 2005)
Mr M Clare	(resigned 21 March 2005)

## Directors' interests in shares

### (As defined by section 325 of the Companies Act 1985)

At no time during the year ended 31 December 2005 did any Director have any interests in the shares of the Company or any other company within the Centrica group, except for interests in and options over, the shares and interests of the ultimate parent company, Centrica plc.

J S Ulrich and P K Bentley are also Directors of Centrica plc, the Company's ultimate parent company, of which the Company is a wholly-owned subsidiary. Their interests in the shares and options over shares in Centrica plc, are shown in the 2005 Centrica Annual Report and Accounts.

The Directors with interests in and options over the ordinary shares of Centrica plc at the end of the year are as follows:

## Beneficial interests in ordinary shares

	As at 31 December 2005	As at 31 December 2004 (or at date of appointment if later)
I Mannan	-	428
I Wood	252,162	250,198

The figures above include shares appropriated under the terms of the Centrica Share Incentive Plan.

# Accord Energy Limited

## Directors' Report (continued)

### Directors' interests in shares (continued)

#### Centrica Sharesave scheme

	As at 31 December 2004*	Options granted during the year	Options exercised during the year	Options lapsed during the Year	As at 31 December 2005
I Mannan	8,823	-	-	-	8,823
I Wood	15,336	-	-	-	15,336

\* or at date of appointment

#### Long-term Incentive scheme (LTIS)

	As at 31 December 2004*	Allocations granted during the year	Allocations vested during the year	Allocations lapsed during the year	As at 31 December 2005
I Mannan	178,409	35,622	72,615	8,499	132,917
I Wood	194,178	44,872	76,585	8,979	153,486

\* or at date of appointment

Total allocations as at 31 December 2005 shown above include allocations of shares that are subject to challenging performance conditions. At the end of the performance period the Total Shareholder Return of Centrica plc will be assessed against that of the relevant LTIS comparator group. If and to the extent that, the performance conditions are met, the relevant number of shares will be released to the Directors at the Trustee's discretion as soon as practicable thereafter.

A conditional allocation of shares was made under the terms of the scheme on 1 April 2005 at a price of 228 pence per share.

#### Centrica Executive Share Option scheme

	As at 31 December 2004*	Options granted during the year	Options exercised during the year	Options lapsed during the year	As at 31 December 2005
I Mannan	261,401	67,286	-	-	328,687
I Wood	349,133	89,744	-	-	438,877

\* As at date of appointment

Under the terms of the ESOS a further grant of options was made on 1 April 2005 at an option price of 228 pence per share.

Options were granted under the terms of the ultimate parent company's Sharesave scheme and ESOS, and allocations made under the terms of the LTIS. Details of these schemes and the Share Incentive Plan can be found in the 2005 accounts of Centrica plc, copies of which can be obtained from [www.centrica.com](http://www.centrica.com).

The middle market price of a Centrica plc ordinary share on the last day of trading of 2005 (30 December) was 254.75 pence. The range during the year was 264.75 pence (high) and 217.50 pence (low).

# **Accord Energy Limited**

## **Directors' Report (Continued)**

As at 31 December 2005, nil shares and 2,591 shares (1 January 2005: 6,370,264 and 2,548) were held by the respective Trustees of employee share trusts for the purposes of the LTIS and the Share Incentive Plan. As with other employees, the Directors are deemed to have a potential interest in those shares, being beneficiaries under the trusts.

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

### **Related party transactions**

The Company has taken advantage of the exemptions within Financial Reporting Standard (FRS) 8 "Related Party Disclosures" from disclosure of transactions with other Centrica group companies. There have been no disclosable related party transactions during the year (2004: £nil).

### **Political and charitable donations**

The Company made no political or charitable donations during the year (2004: £nil).

### **Directors' and officers' liability**

Directors' and officers' liability insurance has been purchased by the ultimate parent company, Centrica plc and was in place throughout the year under review.

### **Statement of directors' responsibilities**

Company law requires the Directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. The Directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Company will continue in business.

The Directors confirm that suitable accounting policies have been used and applied consistently, other than where new accounting standards are adopted during the year as explained in Note 2 to the financial statements. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2005 and that applicable accounting standards have been followed.

The Directors are responsible for keeping proper accounting records that 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.

### **Financial risk management**

The Directors have established objectives and policies for managing financial risks to enable the Company to achieve its long-term shareholder value growth targets within a prudent risk management framework. These objectives and policies are regularly reviewed and are set out in note 17 of the Company's financial statements.

# **Accord Energy Limited**

## **Directors' Report (Continued)**

### **Policy on the payment of creditors**

The Company aims to pay all of its creditors promptly. Payments relating to the purchase of energy products and other direct expenditure associated with energy trading are covered by contractual terms. All other creditors are paid in accordance with contractual and legal obligations.

### **Auditors**

In accordance with section 386 of the Companies Act 1985 (as amended), the Company has elected to dispense with the obligation to reappoint auditors annually and PricewaterhouseCoopers LLP will therefore continue in office.

### **By Order of the Board**



**For and on behalf of  
Centrica Secretaries Limited  
Secretary**

Date: 24 OCTOBER 2002.

Registered Office:

Millstream  
Maidenhead Road  
Windsor, Berkshire, SL4 5GD

Registered in England: No 2877398

# Accord Energy Limited

## Independent auditors' report to the members of Accord Energy Limited

We have audited the financial statements of Accord Energy Limited for the year ended 31 December 2005 which comprise the Profit and Loss Account, Statement of Total Recognised Gains and Losses, Balance Sheet and related notes. These financial statements have been prepared under the accounting policies set out therein.

## Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's Members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies 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 Company's circumstances, consistently applied and adequately disclosed.

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

## Opinion

In our opinion the financial statements:

- give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 and of its profit for the year then ended; and
- have been properly prepared in accordance with the Companies Act 1985.

  
PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

Date: 26/10/06.

# Accord Energy Limited

## Profit and loss account for the year ended 31 December 2005

	Note	2005 £'000	2004 £'000
Net trading income	3	53,782	17,220
Administrative expenses before exceptional items		(6,578)	(5,405)
Exceptional items		1,146	9,623
Administrative expenses including exceptional items		(5,432)	4,218
<b>Operating profit</b>	4	48,350	21,438
Net interest receivable	6	2,748	11,850
<b>Profit on ordinary activities before taxation</b>		51,098	33,288
Tax on profit on ordinary activities	7	2,605	(9,406)
Profit on ordinary activities after taxation for the financial year		53,703	23,882
<b>Retained profit transferred to reserves</b>	15	53,703	23,882

All gains or losses for the year have been derived from continuing operations.

The accompanying notes on pages 10 to 28 form part of these financial statements.

# Accord Energy Limited

## Balance Sheet as at 31 December 2005

		2005 £'000	2004 £'000
	Note		
<b>Fixed Assets</b>			
Tangible fixed assets	8	-	21
Investments	9	850	-
		<u>850</u>	<u>21</u>
<b>Current Assets</b>			
Debtors (amounts falling due within one year)	10	1,965,615	1,421,476
Stock		1,893	-
Cash at bank and in hand		12,123	8,375
		<u>1,979,631</u>	<u>1,429,851</u>
<b>Creditors (amounts falling due within one year)</b>	11	(1,446,062)	(1,285,419)
<b>Borrowings</b>	12	<u>(394,766)</u>	<u>(40,000)</u>
<b>Net current assets</b>		138,803	104,432
<b>Total assets less current liabilities</b>		<u>139,653</u>	<u>104,453</u>
Provisions for liabilities and charges	13	(38)	(2,446)
<b>Net assets</b>		<u>139,615</u>	<u>102,007</u>
<b>Capital and reserves</b>			
Called up share capital	14	50	50
Profit and loss account	15	139,565	101,957
<b>Shareholders' Funds (including non-equity)</b>	15	<u>139,615</u>	<u>102,007</u>

The financial statements on pages 7 to 28 were approved and authorised for issue by the Board of Directors on

24 October 2006 and were signed on its behalf by:

Irfan Mannan  
Director

Irfan Mannan

IRFAN MANNAN

The accompanying notes on pages 10 to 28 form part of these financial statements.



# Accord Energy Limited

## Statement of Total Recognised Gains and Losses for the year ended 31 December 2005

	2005 £000	2004 £000
Net profit for the financial year	53,703	23,882
<b>Total recognised gains and losses relating to the year</b>	<b>53,703</b>	<b>23,882</b>
Prior year adjustment on adoption of FRS 17 (i)	(264)	
Prior year adjustment on adoption of FRS 20 (i)	84	
Prior year adjustment on adoption of FRS 25 and FRS 26 (i)	(15,915)	
<b>Total recognised gains and losses since last financial statements</b>	<b>37,608</b>	

(i) The impact of FRS 17, FRS 20, FRS 25 and FRS 26 are disclosed in Note 2.

The accompanying notes on pages 10 to 28 form part of these financial statements.

# Accord Energy Limited

## Notes to the accounts

### 1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards and the Companies Act 1985.

The financial statements reflect the adoption of FRS 25 and FRS 26 which the Company adopted in 2005, and includes the additional disclosures required due to changes to the Companies Act 1985 made through Statutory Instrument 04/2947 which came into force for financial years beginning 1 January 2005.

In 2004, the Company applied the true and fair override provisions of Schedule 4 of the Companies Act 1985. The effect of the departure on the financial statements was an increase in profit for the year ended 31 December 2004 amounting to £14,000,000 and an increase in net assets at 31 December 2004 of £22,000,000. In 2005, following the changes to the Companies Act 1985, as highlighted above, the use of the true and fair override provisions is no longer required.

### Exemptions

As the Company's voting rights are controlled by Centrica plc (the ultimate parent company), and the Company's shares are not quoted on a recognised public exchange, the Company has taken advantage of the exemptions within: FRS 1 Cash Flow Statements from presenting a cash flow statement; FRS 2 Accounting for Subsidiary Undertakings from consolidating its subsidiary undertakings; FRS 8 Related party disclosures from disclosure of transactions with other group companies; and FRS 25 Financial instruments: Disclosure and presentation; from providing additional disclosures relating to financial instruments.

### Turnover

Turnover, which excludes value added tax, represents the invoiced sales of energy financial derivative contracts for gas, electricity, emissions and oil to customers plus an estimate of sales not yet invoiced. Movements in the valuation of energy financial derivative contracts are also included within turnover.

### Cost of sales

Cost of sales, which excludes value added tax, represents the invoiced purchases of energy financial derivative contracts for gas, electricity, emissions and oil to customers plus an estimate of purchases not yet invoiced.

### Net Trading income

Net Trading income comprises Turnover less Cost of sales for the year.

### Derivative financial instruments

A financial instrument is defined in FRS 25 as any contract which gives rise to a financial asset of one entity and a financial liability of another entity. Energy trading financial derivatives and open positions on physical energy trading contracts are marked to market using externally derived market prices or to the extent that market prices are not available, commodity prices using assumptions based on market expectations and reasonably reflected factors that market participants would consider in setting a price. In 2005 such contracts were marked to market using the bid or offer price and adjusted for any credit risk provision to reflect the recoverability of the forward mark to market positions. The marked to market value was discounted to determine its present value. This is a change in estimation technique from the prior year. Movements in the valuation of derivative contracts are included within net trading income. Financial instruments are recognised at trade date. The Company has a policy of offsetting financial assets and financial liabilities where there is a contractual right of set off and the instruments are settled net.

# Accord Energy Limited

## Notes to the accounts (continued)

### 1 Principal accounting policies (continued)

The financial impact of adopting FRS 25 and 26 is to increase the Profit and Loss Account by £15,988,000 in 2005 (2004: (£15,915,000)), decrease net assets as at 1 January 2005 by £15,915,000 and increase net assets at 31 December 2005 by £3,023,000. This impact reflects the fact that under FRS 25 and 26, cross-border trades are marked to prices in the local market as opposed to prices in the most favourable market which could be assessed through the cross-border transmission and transportation capacity held against such trades. The associated capacity has not been marked to market. In addition, derivative financial instruments of £1,104,573,000 and (£1,100,545,000) have been reclassified within debtors and creditors respectively (see Notes 10 and 11 respectively). Collateral receipts of £394,766,000 have also been reclassified as loans from trading counterparties (see Note 12). Comparatives have not been restated.

#### Trade debtors and trade creditors

Trade debtors and trade creditors are recognised initially at original invoice amount. Trade debtors are stated after an allowance for any uncollectable amounts. Provision is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified. Trade debtors and trade creditors are presented and settled net where there is a contractual right of set off and the balances are settled net.

#### Tangible fixed assets

Tangible fixed assets are stated at purchase cost together with any incidental costs of acquisition less accumulated depreciation. Depreciation is calculated on a straight-line basis at rates sufficient to write off the cost of individual assets, less estimated residual value, over their estimated useful lives. The depreciation periods for the principal categories of assets are Fixtures and fittings (5 years) and Computer and office equipment (5 years).

#### Fixed asset investment

Fixed asset investments are stated at cost less any provisions for impairment.

#### Stock

Stock consists of physical gas stocks and emissions certificates. Stock is held at fair value with the movement in the fair value recognised in the Profit and Loss Account.

#### Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into pounds sterling at closing rates of exchange. Income and expenses in foreign currencies are translated into pounds sterling at rates of exchange prevailing at the time of the transactions. Exchange differences on monetary assets and liabilities are taken to the profit and loss account.

#### Taxation

Current tax, including UK corporation tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted by the balance sheet date. Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of available evidence, it can be regarded as more likely than not that there will be suitable taxable profits in the foreseeable future from which the reversal of the underlying timing differences can be deducted.

# Accord Energy Limited

## Notes to the accounts (continued)

### 1 Principal accounting policies (continued)

Deferred tax is not recognised when fixed assets are revalued unless by the balance sheet date there is a binding agreement to sell the revalued assets and the gain or loss expected to arise on sale has been recognised in the financial statements. Neither is deferred tax recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non discounted basis.

### Share schemes

The Company has adopted FRS20 "Share-based payment" in the year. The adoption of this standard represents a change in accounting policy. Details of the effect of the change in policy are given in note 2. As a subsidiary of Centrica plc, the Company participates in a number of the Group's employee share schemes under which it makes equity-settled share based payments in Centrica plc shares to certain employees. These are detailed in the Annual Report and Accounts of Centrica plc.

Equity-settled share-based payments are measured at fair value at the date of grant (excluding the effect of non market-based vesting conditions). The fair value determined at the grant date is expensed on a straight line basis together with the corresponding increase in equity over the vesting period, based on the Group's estimate of the number of shares that will vest and adjusted for the effect of non market-based conditions.

Fair value is measured using methods appropriate to each of the different schemes as follows:

LTIS	A Black-Scholes valuation augmented by a Monte Carlo simulation to predict the Total Shareholder Return performance.
Sharesave	Black-Scholes
ESOS	Black-Scholes using an adjusted option life assumption to reflect the possibility of early exercise.

The Company has taken advantage of the transitional provisions of FRS20 "Share-based payment" in respect of equity-settled awards and has applied FRS20 only to equity-settled awards granted after 7 November 2002, that were unvested at 1 January 2005.

### Pensions

The Company has adopted FRS17 "Retirement benefits" in the year. The Company's employees participate in a number of the Group's defined benefit pension schemes. The Company is unable to identify its share of the underlying assets and liabilities in the scheme on a consistent and reasonable basis and therefore accounts for the schemes as if they were defined contribution schemes. The charge to the profit and loss account is equal to the contributions payable to the schemes in the accounting period, which are based on pension costs across the Group as a whole.

# Accord Energy Limited

## Notes to the accounts (continued)

### 1 Principal accounting policies (continued)

#### Loans and borrowings

All interest-bearing loans and borrowings are initially recognised at fair value plus directly attributable transactions costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method, except when they are the hedged item in an effective fair value hedge relationship where the carrying value is adjusted to reflect the fair value movements associated with the hedged risks and the fair value movements are recognised in the Profit and Loss Account. Amortised cost is calculated by taking into account any issue cost, and any discount or premium.

### 2 Changes in accounting policy

The Company has adopted the following standards with effect from 1 January 2005: FRS 25, Financial Instruments: Disclosure and Presentation (FRS 25), FRS 26, Financial Instruments: Recognition and Measurement (FRS 26), FRS17, Retirement Benefits, FRS20, Share-based payment, FRS 21 (IAS 10) Events after the balance sheet date, and FRS 23, The effects of changes in foreign exchange rates.

The impact of adopting FRS 25 and 26 has been disclosed in Note 1.

In 2005 the Company has combined Turnover and Cost of sales on the face of the profit and loss account under Net trading income. This represents a change in the presentation of the Profit and Loss Account from the prior year as the directors feel that presenting turnover and cost of sales on a net basis would facilitate the assessment of the profit or loss of the Company for the year. The effect of this is to present turnover of £9,369.7m (2004: £7,094.1m) and cost of sales of £9,315.9m (2004: £7,076.9m) on a combined basis.

The Company previously accounted for retirement benefits in accordance with SSAP 24. The charge to the Profit and Loss Account comprised the cost of providing retirement pensions and other benefits, spread over the period benefiting the employees' service. The Company recognised a provision or prepayment which represented the difference between charges to the Profit and Loss Account and contributions paid to the pension schemes. Under FRS 17, the Company is unable to identify its share of the underlying assets and liabilities in the schemes on a consistent and reasonable basis. Therefore the Company's charge to the Profit and Loss Account is equal to the contributions payable to the schemes in the accounting period. The adoption of FRS 17 has resulted in a decrease of the Company's previously reported net assets of £264,000.

The Company previously accounted for share-based payments in accordance with UITF 38 and UITF 17 (revised 2003). These abstracts required the profit and loss charge to be determined as the intrinsic value of the options granted. Under FRS 20, equity-settled share-based payments are measured at fair value at the date of grant. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Company's estimate of the number of instruments that will satisfy non-market vesting conditions. The implementation of FRS 20 has resulted in an increase of the Company's previously reported net assets of £83,000 at 31 December 2004, an increase to the Company's previously reported profits of £83,000. The adoption of FRS 21 has not had a material impact on the Company's result or net assets.

# Accord Energy Limited

## Notes to the accounts (continued)

### 3 Net trading income

	2005 £'000	2004 £'000
Turnover	9,369,666	7,094,121
Cost of sales	<u>(9,315,884)</u>	<u>(7,076,901)</u>
Net trading income	53,782	17,220

### 4 Operating profit

The operating profit is stated after charging/(crediting):

	2005 £'000	2004 £'000
Auditors' remuneration:		
- Statutory audit	66	66
- Other	-	-
Depreciation	21	30
Exceptional item	<u>(1,146)</u>	<u>(9,623)</u>

The Company has recognised an exceptional gain in the year due to recoveries made on debts that had previously been written off in the financial statements. There was a £1.1m recovery in relation to the TXU Europe Ltd bad debt that was disclosed as an exceptional loss in 2002.

### 5 Directors and employees

#### (a) Directors' emoluments

None of the Directors, including the Chairman, received any remuneration in respect of their services to the Company during the year.

The Directors, Messrs Bentley and Ulrich, are also Directors of the ultimate parent company and their remuneration for services to the group as a whole are shown in Centrica plc's annual report and accounts for the year ended 31 December 2005. Retirement benefits accrue to them under the group's defined benefit scheme.

The emoluments of the directors are paid by a group undertaking and are deemed by them to be wholly attributable to their services to that undertaking. Accordingly no details in respect of their emoluments have been included in these financial statements.

# Accord Energy Limited

## Notes to the accounts (continued)

### (b) Employee information

The average number of personnel directly employed by the Company, not including secondees from the shareholder companies, during the year was 23 (2004: 25) who were all based in the United Kingdom. Staff costs for these employees were as follows:

	2005 £'000	2004 £'000
Wages and salaries	2,782	1,842
Social security costs	306	311
Other pension costs	368	320
Long Term Incentive Scheme	(182)	616
	<u>3,274</u>	<u>3,089</u>

### 6 Net interest receivable

	2005 £'000	2004 £'000
Net interest receivable from group undertakings	12,926	16,917
Interest receivable from third parties	1,046	115
Interest payable to third parties	(11,224)	(5,182)
Net interest receivable	<u>2,748</u>	<u>11,850</u>

Interest payable to/receivable from third parties relates to interest on cash collateral advances held/paid by the Company under trading arrangements.

### 7 Taxation

	2005 £'000	2004 £'000
The tax charge comprises:		
UK Corporation tax at 30% (2004 : 30%)	-	6,386
- Tax on exceptional items	-	2,887
- Adjustments in respect of prior years	(9,345)	-
Total current tax	<u>(9,345)</u>	<u>9,273</u>
Deferred tax		
- Origination and reversal of timing differences	<u>6,740</u>	<u>133</u>
Total tax on profit on ordinary activities	<u>(2,605)</u>	<u>9,406</u>

# Accord Energy Limited

## Notes to the accounts (continued)

### 7 Taxation (continued)

The differences between total current tax shown and the amount calculated by applying the standard rate of UK corporation tax to profit/(loss) before tax is as follows:

	2005 £'000	2004 £'000
Profit on ordinary activities before tax	51,098	33,288
Tax on profit on ordinary activities at standard UK Corporation tax rate of 30% (2004 : 30%)	15,329	9,986
Effects of:		
Expenses not deductible for tax purposes	1	-
Depreciation in excess of capital allowances	1	2
Utilisation of timing differences	(6,740)	(135)
Transfer pricing adjustments	(647)	-
Adjustments to tax charge in respect of prior periods	(9,346)	-
Group relief for nil consideration	(7,943)	(580)
Current tax (credit)/charge for year	(9,345)	9,273



# Accord Energy Limited

## Notes to the accounts (continued)

### 8 Tangible fixed asset

	£'000
<b>Cost</b>	
Balance at 1 January and 31 December 2005	160
<b>Depreciation</b>	
Balance at 1 January 2005	139
Amounts written off	17
Charge for the year	4
Balance at 31 December 2005	160
<b>Net book value</b>	
As at 31 December 2005	-
As at 31 December 2004	21

The tangible fixed assets comprise fixtures, fittings and computer and office equipment.

### 9 Fixed asset investments

#### Subsidiary undertakings

	2005 £'000	2004 £'000
Cost and carrying value	850	-
	<b>Country of registration or incorporation</b>	<b>Class of shares held</b>
		<b>Company holding (%)</b>
Accord Electric Limited	England	Ordinary 100
Accord Energy (Trading) Limited	England	Ordinary 100
Accord Gas Limited	England	Ordinary 100
Accord Oil Limited	England	Ordinary 100

As at 31 December 2005 all of these subsidiary undertakings except Accord Energy (Trading) Limited were dormant.

# Accord Energy Limited

## Notes to the accounts (continued)

### 10 Debtors (amounts falling due within one year)

	2005 £'000	2004 £'000
Trade debtors and income accrued (i)	380,006	1,101,392
Derivative financial instruments	1,104,573	-
Deferred corporation tax	15	-
Amounts owed by group undertakings	445,337	287,886
Other debtors and prepayment	35,684	32,198
	<u>1,965,615</u>	<u>1,421,476</u>

Amounts owed by group undertakings are unsecured, have no fixed date of payment and an amount of £441,537,000 bears an interest rate of 0.125% below base rate. Other debtors are made up of collateral payments of £13,300,000 (2004: 21,761,000), a VAT debtor of £1,805,000 (2004: £5,909,000), prepayments of £5,289,000 (2004: £4,174,000) and sundry debtors of £15,290,000 (2004: £354,000).

(i) Following adoption of FRS 25 and FRS 26 derivative financial instruments have been reclassified to a separate heading for 2005. Comparatives have not been restated.

### Deferred corporation tax

The deferred corporation tax (provision)/asset at 30% (2004: 30%) is analysed as follows:

	Amounts provided		Potential amounts Unrecognised	
	2005 £'000	2004 £'000	2005 £'000	2004 £'000
Accelerated capital allowances	15	14	-	-
Other timing differences	-	(79)	-	-
Total	<u>15</u>	<u>(65)</u>	<u>-</u>	<u>-</u>

# Accord Energy Limited

## Notes to the accounts (continued)

### 11 Creditors (Amounts falling within one year)

	2005 £'000	2004 £'000
Trade creditors (i)	132,255	750,800
Derivative financial instruments (ii)	1,100,545	-
Amounts owed to group undertakings	5,918	22,590
Taxation and social security	-	9,346
Deferred corporation tax	-	65
Other creditors (iii)	4,453	117,063
Accruals and deferred income (i)	202,891	385,555
	<u>1,446,062</u>	<u>1,285,419</u>

Amounts owed to group undertakings are non-interest bearing, with no fixed repayment date and no security provided.

(i) Following adoption of FRS 25 and FRS 26 derivative financial instruments have been reclassified to a separate heading for 2005. Comparatives have not been restated.

(ii) Derivative financial instruments include £754,001,000 of amounts owed to group undertakings.

(iii) Other creditors include collateral receipts of £nil (2004: £107,985,000). Collateral receipts are now shown under Loans from trading counterparties. Comparatives have not been restated.

### 12 Borrowings

	2005 £'000	2004 £'000
<b>Amounts falling due within one year</b>		
Loans from trading counterparties (i)	394,766	-
Amounts owed to Group undertakings (ii)	-	40,000
	<u>394,766</u>	<u>40,000</u>

(i) Following the adoption of FRS 25 and FRS 26 loans from trading counterparties were reclassified from other creditors. Comparatives for collateral receipts have not been restated.

(ii) The amount owed to group undertakings was repaid in 2005.

### 13 Provisions for liabilities and charges

	As at 1 Jan 2005 £'000	Profit and loss charge £'000	Utilisation of provision £'000	As at 31 Dec 2005 £'000
Pension provision	-	-	-	-
Other provisions <sup>(i)</sup>	2,446	(2,408)	-	38
	<u>2,446</u>	<u>(2,408)</u>	<u>-</u>	<u>38</u>

(i) Other provisions cover reimbursements to Centrica plc for shares provided to qualifying employees under the parent company's (a) long term incentive scheme and (b) the employee sharesave scheme. There is uncertainty of the timing of the utilisation of this provision.

# Accord Energy Limited

## Notes to the accounts (continued)

### 13 Provisions for liabilities and charges (continued)

Centrica plc operates a number of employee share schemes including the Executive Share Option Scheme (ESOS), the Long Term Incentive Scheme (LTIS), Sharesave and the Share Incentive Plan (SIP). These are described in the Directors' Report on page 24 of the Centrica plc Annual Report and Accounts 2005, and in the Remuneration Report on pages 30 to 31 of the Centrica plc Annual Report and Accounts 2005. There were no other share-based payment transactions during the period.

#### ESOS

Under the ESOS the Board may grant options over shares in Centrica plc to employees of the Group. Options are granted with a fixed exercise price equal to the market price of the shares at the date of grant. The contractual life of an option is ten years. Awards under the ESOS are generally reserved for employees at senior management level and above and 1 employee is currently eligible to participate. Options granted under the ESOS will become exercisable on the third anniversary of the date of grant, subject to the growth in earnings per share over that period exceeding RPI growth by more than 18 percentage points. The number of options becoming exercisable is reduced on a sliding scale if EPS growth exceeds RPI growth by between nine and 18 percentage points. Options granted up to March 2004 also permit retesting of EPS growth annually for a further two years. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. No performance conditions were included in the fair value calculations. Early exercise has been taken into account by estimating the expected life of the options. As allowed by FRS 20, only options granted since 7 November 2002 which were unvested at 1 January 2005 have been valued. The fair values and the related assumptions used in the calculations are as follows:

	23 September 2005	1 April 1 September 2005 2004	18 March 1 September 2004 2003	24 March 2003
<b>Grant date</b>				
Share price at grant date	£2.46	£2.28	£2.46	£2.28
Exercise price	£2.51	£2.29	£2.45	£2.24
Number of options originally granted	291,235	8,339,818	195,795	8,815,399
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	30%	30%	27%	27%
Contractual option life	10 yrs	10 yrs	10 yrs	10 yrs
Expected life	5 yrs	5 yrs	5 yrs	5 yrs
Risk-free rate	4.80%	4.70%	5.00%	5.01%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%
Expected forfeitures	25%	25%	25%	25%
Fair value per option	£0.50	£0.49	£0.47	£0.45

- (i) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the average expected period to exercise. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of option movements is as follows:

# Accord Energy Limited

## Notes to the accounts (continued)

### 13 Provisions for liabilities and charges (continued)

	2005		2004	
	Number	Weighted average exercise price £	Number	Weighted average exercise price £
Outstanding at start of period	152,050	2.40	152,050	2.40
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited	-	-	-	-
Outstanding at the end of the period	152,050	2.40	152,050	2.40
Exercisable at the end of the period	152,050	2.40	152,050	2.40

For options outstanding at the end of the period, the range of exercise prices and average remaining life was as follows:

2005				2004			
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years
£1.40 – £1.49	-	-	-	£1.40 – £1.49	-	-	-
£1.70 – £1.79	-	-	-	£1.70 – £1.79	-	-	-
£2.20 – £2.29	-	-	-	£2.20 – £2.29	-	-	-
£2.40 – £2.49	2.40	152,050	5.3	£2.40 – £2.49	2.40	152,050	6.3
£2.50 – £2.59	-	-	-				
	2.40	152,050	5.3		2.40	152,050	6.3

No options were exercised during the period (2004: nil)

#### LTIS

Under the LTIS, allocations of shares in Centrica plc are made to employees of the Group. Awards under the LTIS are generally reserved for employees at senior management level and above and 2 employees are currently eligible to participate. The number of shares that are to be released to participants is calculated subject to the Company's total shareholder return (TSR) during the three years following the grant date, compared to the TSR of other shares in the FTSE 100 Index over the same period. The number of shares released is reduced on a sliding scale if Centrica's TSR is ranked between 50th and 25th. For allocations granted from October 2001 onwards shares are released to participants immediately following the end of the period in which TSR performance is assessed. For awards granted prior to that date allocations are subject to a further two years retention. Release of shares is subject to continued employment within the Group at the date of release. Allocations were valued using the Black-Scholes option pricing model. Performance conditions were included in the fair value calculations, through the use of a Monte Carlo simulation model. As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been valued. The fair values and the related assumptions used in the calculations are as follows:

# Accord Energy Limited

## Notes to the accounts (continued)

### 13 Provisions for liabilities and charges (continued)

	23 September 2005	1 April 2005	1 September 2004	1 April 2004	1 September 2003	1 April 2003
<b>Grant date</b>						
Share price at grant date	£2.46	£2.28	£2.46	£2.30	£1.80	£1.47
Exercise price	£nil	£nil	£nil	£nil	£nil	£nil
Number of shares originally granted	456,421	8,408,130	310,460	9,765,341	665,696	13,573,547
Vesting period	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected volatility (i)	30%	30%	27%	27%	35%	35%
Contractual life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Expected life	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs	3 yrs
Risk-free rate	4.80%	4.68%	5.00%	5.04%	4.31%	3.88%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	20%	20%	20%	20%	20%	20%
Average volatility of FTSE 100	30%	30%	30%	30%	30%	30%
Average cross-correlation of FTSE 100	(ii)	(ii)	30%	30%	30%	30%
Fair value per share allocated	£1.20	£1.03	£1.25	£1.17	£0.99	£0.89

(ii) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the contract life, which is a fixed-term of three years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is shown below:

	2005 Number	2004 Number
Outstanding at start of period	571,431	1,283,160
Granted	-	-
Exercised	(407,732)	(640,582)
Forfeited – performance related	(36,822)	(71,147)
Forfeited – non-performance related	-	-
Outstanding at the end of the period	126,877	571,431
Exercisable at the end of the period	-	355,250

From 2005, the cross-correlation of the FTSE 100 has been obtained from a model which calculates the correlation between Centrica's historical share price and each of the FTSE 100 over the period from March 2000.

For shares released during the period the weighted average share price was £2.43 (2004: £2.47).

#### Sharesave

Under Sharesave the Board may grant options over shares in Centrica plc to UK-based employees of the Group. Options are granted with a fixed exercise price equal to 80% of the average market price of the shares for the three days prior to invitation which is three to four weeks prior to the grant date. Employees pay a fixed amount from salary into a savings account each month, and may elect to save over three or five years. At the end of the savings period, employees have six months in which to exercise their options using the funds saved. If employees decide not to exercise their options, they may withdraw the funds saved, and the options expire. Exercise of options is subject to continued employment within the Group. Options were valued using the Black-Scholes option pricing model. As allowed by FRS 20, only options granted since 7 November 2002, which were unvested at 1 January 2005, have been valued. The fair values and the related assumptions used in the calculations are as follows:

# Accord Energy Limited

## Notes to the accounts (continued)

### 13 Provisions for liabilities and charges (continued)

Grant date	6 April 2005	6 April 2005	1 April 2004	1 April 2004	8 April 2003	8 April 2003
Share price at grant date	£2.36	£2.36	£2.30	£2.30	£1.59	£1.59
Exercise price	£1.88	£1.88	£1.83	£1.83	£1.07	£1.07
Number of options originally granted	4,329,658	5,791,571	3,854,639	7,407,793	37,280,748	34,151,197
Vesting period	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs
Expected volatility (i)	30%	30%	27%	27%	35%	35%
Contractual option life	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs	5.5 yrs	3.5 yrs
Expected life	5 yrs	3 yrs	5 yrs	3 yrs	5 yrs	3 yrs
Risk-free rate	4.65%	4.64%	5.13%	5.04%	3.90%	3.90%
Expected dividend yield	4.37%	4.37%	4.82%	4.82%	3.09%	3.09%
Expected forfeitures	40%	25%	40%	25%	40%	25%
Fair value per option	£0.68	£0.64	£0.61	£0.58	£0.64	£0.60

(iii) The expected volatility is based on historical volatility over the last three years (except in the case of options granted in 2003, where historical volatility over the preceding three years was 43% and this was felt to be unrepresentative because it included a significant period of exceptionally high volatility in 1999/2000. In this case the volatility was reassessed ignoring this period). The expected life is the contract life, which is a fixed-term of three years. The risk-free rate of return is the yield on zero-coupon UK government bonds of a term consistent with the expected option life. A reconciliation of movements in allocations is as follows:

	2005		2004	
	Weighted average exercise price		Weighted average exercise price	
	Number	£	Number	£
Outstanding at start of period	148,878	1.15	137,374	1.09
Granted	3,525	1.88	20,370	1.83
Exercised	-	-	(608)	1.91
Lapsed	(6,925)	1.64	(8,258)	1.83
Expired	-	-	-	-
Outstanding at the end of the period	145,478	1.14	148,878	1.15
Exercisable at the end of the period	-	-	-	-

For options outstanding at the end of the period, the range of exercise prices and the average remaining life was as follows:

2005				2004			
Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years	Range of exercise prices	Weighted average exercise price	Number of shares	Average remaining contractual life Years
£1.00 – £1.09	1.07	131,275	2.21	£1.00 – £1.09	1.07	133,039	3.20
£1.70 – £1.79	1.78	3,727	2.30	£1.70 – £1.79	1.78	3,727	3.30
£1.80 – £1.89	1.83	10,476	2.82	£1.80 – £1.89	1.83	12,112	3.60
£1.90 – £1.99	-	-	-	£1.90 – £1.99	-	-	-
	1.14	145,478	2.32		1.15	148,878	3.23

# Accord Energy Limited

## Notes to the accounts (continued)

### 13 Provisions for liabilities and charges (continued)

For options exercised during the period the weighted average share price was £1.91 in 2004. No options were exercised in 2005.

#### SIP

Under SIP, employees in the UK may purchase 'partnership shares' through monthly salary deductions. The Company then grants one 'matching share' for every two purchased, up to a maximum of 20 matching shares per employee per month. Both partnership shares and matching shares are held in a trust initially. Partnership shares may be withdrawn at any time, but matching shares are forfeited if the related partnership shares are withdrawn within three years from the original purchase date. Matching shares vest unconditionally for employees after being held for three years in the trust. Vesting of matching shares is also subject to continued employment within the Group. Matching shares are valued at the market price at the grant date. The average fair value of these awards during the year was £2.36 (2004: £2.74). The number of shares held in trust at 31 December 2005 was nil (2004: nil).

### 14 Called up share capital

	2005 £	2004 £
<b>Authorised share capital</b>		
50,000 ordinary shares of £1 each	50,000	50,000
196 participating preference shares of £1 each	196	196
999,753 unclassified shares of £1 each	999,753	999,753
	<u>1,049,949</u>	<u>1,049,949</u>
	2005 £	2004 £
<b>Allotted and fully paid share capital</b>		
50,000 ordinary shares of £1 each	50,000	50,000
196 participating preference shares of £1 each	196	196
	<u>50,196</u>	<u>50,196</u>

### 15 Reserves

	£'000
<b>Profit and loss account:</b>	
As at 31 December 2004	101,957
Prior year adjustment on adoption of FRS 17	(264)
Prior year adjustment on adoption of FRS 20	84
Prior year adjustment on adoption of FRS 25 and FRS 26	<u>(15,915)</u>
As at 1 January 2005	85,862
Transfer from profit and loss account for the year	<u>53,703</u>
As at 31 December	<u>139,565</u>



# Accord Energy Limited

## Notes to the accounts (continued)

### 16 Reconciliation of movements in shareholders' funds

	2005 £'000	2004 £'000
Profit for the financial year	53,703	23,882
Net addition to shareholders' funds	53,703	23,882
Opening shareholders' funds as previously reported	102,007	78,125
Prior year adjustment on adoption of FRS 17	(264)	-
Prior year adjustment on adoption of FRS 20	84	-
Prior year adjustment on adoption of FRS 25 and FRS 26	(15,915)	-
Opening shareholders' funds as restated	85,912	78,125
<b>Shareholders' funds as at 31 December</b>	<b>139,615</b>	<b>102,007</b>

The Company has adopted FRS 17 in the year and has taken advantage of the multi-employer exemption and so the pension provision has been adjusted through reserves.

### 17 Financial instruments

#### (i) Risks

Exposure to commodity price risk, counterparty credit risk, interest rate risk, currency risk and liquidity risk arises from the Company's proprietary trading business. Derivative financial instruments are entered into for trading purposes.

The most significant financial risk facing the Company relates to commodity prices, in particular for gas and electricity. Commodity price risk is the risk that changes to gas and electricity period prices would impact the net fair value of commodity contracts held for trading.

Either of the following alternative assumptions, or a combination of these alternative assumptions, would significantly increase forecast gas and electricity prices outside the active period of the market:

- higher oil prices and continued strong linkage between oil and gas prices
- lower supply to the UK gas market, for instance due to insufficient new infrastructure being put in place, or due to higher worldwide competition for gas supplies.

The impact of applying these reasonably possible assumptions in determining the fair values would be to decrease the net fair value of derivative financial instruments by £5,000,000.

A combination of the following alternative assumptions would significantly decrease forecast gas prices outside the active period of the market:

- lower oil prices and continued linkage between oil and gas prices
- a discontinuation of the linkage between oil and gas prices in the medium-term
- liberalisation in the European gas market, if this were to result in increased competition between gas producers;
- a degree of oversupply to the UK gas market resulting from new infrastructure or lower worldwide demand for gas.

The impact of applying these reasonably possible assumptions in determining the fair values would be to increase the net fair value of derivative financial instruments by £5,000,000.

These exposures are subject to volumetric limits on open exposures and VaR limits.

# Accord Energy Limited

## Notes to the accounts (continued)

### 17 Financial instruments (continued)

Liquidity risk is the risk that the Company will not have sufficient funds to meet liabilities. Cash forecasts identifying the liquidity requirements of the Company are produced frequently. These are reviewed regularly to ensure sufficient financial headroom exists for at least a 12 month period. The Company finances its operations through a combination of cash flow from operations and financing received from other Centrica Group companies. The exposure to liquidity risk represents the contracted undiscounted cash flows on derivative financial instrument liabilities. The Company's exposure to liquidity risk at 31 December 2005 was £1,126,327,000.

Counterparty credit risk is the risk that the financial benefits of the contracts with a specific counterparty will be lost if a counterparty defaults on their contractual obligations. This includes any cash amounts owed to the Company by those counterparties, less any amounts owed to the counterparty by the Company where a legal right of set-off exists. The exposure to credit risk at 31 December 2005 was £1,534,304,000.

Counterparty credit exposures are monitored by individual counterparty and by category of credit rating, and are subject to approved limits. The majority of significant exposures are with A-rated counterparties or better, or with other Centrica Group companies. A credit risk adjustment is made to the fair values of financial instruments in accordance with the credit rating of the counterparty. Accord employs a variety of other methods to mitigate credit risk including margining, various forms of bank and Parent Company Guarantees and Letters of Credit. Accord also uses master netting agreements or netting provisions to reduce credit risk and net settles payments with counterparties where master netting agreements are held. At 31 December 2005 the Company had received £394,765,988 of cash collateral principally under margin calls to cover exposure to mark to market positions on derivative contracts and had pledged £13,843,000.

Interest rate risk, currency risk and liquidity risk are managed centrally by Centrica plc.

#### (ii) Fair values

The fair values of the Company's financial instruments together with the carrying amounts included in the Balance Sheet are analysed below.

#### Primary financial assets

	2005	2004
	Carrying value/ Fair value £000	Carrying value/ Fair value £000
Trade debtors and income accrued	380,006	702,752
Amounts owed by group undertakings	445,337	287,886
Other debtors	28,590	22,115
Cash and cash equivalents	12,123	8,375
	<u>866,056</u>	<u>1,021,128</u>

# Accord Energy Limited

## Notes to the accounts (continued)

### 17 Financial instruments (continued)

#### Primary financial liabilities

	Carrying value/ Fair value £000	Carrying value/ Fair value £000
Trade creditors	132,255	750,800
Amounts owed to group undertakings	5,918	22,590
Accruals and deferred income	202,891	1,762
Borrowings from group undertakings	-	40,000
Other creditors	4,453	107,985
	<u>345,517</u>	<u>923,137</u>

#### Derivative financial instruments

	2005 Carrying value/ Fair value £000	2004 Carrying value/ Fair value £000
Derivative financial instruments held for trading:		
Energy derivatives – assets (i)	1,104,573	398,640
Energy derivatives – liabilities (i)	(1,100,545)	(383,793)
Net total	<u>4,028</u>	<u>14,847</u>

Fair value is equivalent to carrying value.

(i) Following the adoption of FRS 25 and FRS 26 derivative financial instruments have been reclassified to a separate heading for 2005 in Notes 10 and 11. The comparatives for energy derivative – assets and energy derivative – liabilities have not been reclassified to separate headings in Notes 10 and 11 and are included within trade debtors and income accrued and accruals and deferred income respectively.

#### (iii) Methods and assumptions

The values of commodity contracts are estimated by reference in part to published price quotations in active markets and in part by using valuation techniques. Management consider the UK markets for gas and electricity to be active for up to two years, with reliable broker quotes and published prices available for this period. In the active period financial instruments are valued against forward market prices available at 31 December 2005. Outside the active period financial instruments are valued using commodity prices derived using assumptions that are based on market expectations and reasonably reflect all factors that market participants would consider in setting a price. The total change in fair value estimated using valuation techniques that was recognised in the Profit and Loss Account during the year amounts to a profit of £16,446,512.

The most significant assumptions incorporated in the valuation techniques used to value commodity contracts at 31 December 2005 are as follows:

- Commodity prices are based on views held by a cross-section of independent external market experts.
- It is assumed that markets would allow the sale or purchase of each commodity in equivalent volumes to those contracted at the forecast market price.
- Day 1 gains and losses are only recognised in the profit and loss account to the extent that the valuation is based on observable market prices.

Significant terms and conditions for energy forwards, futures, swaps and options include a contractual right of setoff, the practise of net settling and settlement occurring on delivery.

# Accord Energy Limited

## Notes to the accounts (continued)

### 18 Post balance sheet events

In 2002 the Company recognised exceptional losses associated with the write-off of the Company's trade receivables from TXU Europe Ltd. Recoveries of £1,146,435 in relation to the Company's claim on TXU Europe were received in 2006 and disclosed in the profit and loss as an exceptional gain.

### 19 Pensions

The majority of the Company's UK employees as at 31 December 2005 were members of two of the three main schemes in the Centrica plc group; the Centrica Pension Scheme and the Centrica Management Pension Scheme.

These schemes are defined benefit schemes and their assets are held in separate trustee administered funds. However, it is not possible on a reasonable and consistent basis to identify the Company's share of the underlying assets and liabilities within these schemes, and therefore, as allowed within FRS17, these schemes have been treated as defined contribution schemes. The aggregate contributions to the schemes during the year were £0.37 million (2004: £0.3million). The amount outstanding at the balance sheet date was £nil (2004: £nil). The latest actuarial valuation of the schemes, prepared for the purposes of making the transitional disclosures in accordance with FRS17 in the consolidated financial statements of Centrica plc, show a total deficit of £573 million (£401 million net of deferred tax). Further details of this valuation can be found in the annual report of Centrica plc.

The liabilities under the pension schemes will be paid out over an extended period. The Company is contributing to the pension fund on the basis of actuarial advice as to the amounts required to meet these liabilities in full. This actuarial advice is based on triennial funding valuations, the last of which was as at 31 March 2004.

### 20 Ultimate parent company

GB Gas Holdings Limited, a company registered in England and Wales, is the immediate parent company. Centrica plc, a company registered in England, is the ultimate parent company and the only company to consolidate the accounts of Accord Energy Limited. Copies of the Annual Report of Centrica plc may be obtained from [www.centrica.com](http://www.centrica.com).