

Registered Number : 4236804

## **Gaz de France Marketing Limited**

### **Report and Financial Statements**

31 December 2006

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COMPANIES HOUSE

# Gaz de France Marketing Limited

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Registered No 4236804

## **Directors**

Mr J C Depail (Chairman)

Mr E Stab

## **Secretary**

Mr D Park

## **Auditors**

Ernst & Young LLP

Cloth Hall Court

14 King Street

Leeds LS1 2JN

## **Bankers**

Barclays Bank PLC

50 Pall Mall

London SW1A 1QF

## **Registered Office**

1 City Walk

Leeds

West Yorkshire

LS11 9DX

## Directors' report

The directors present their report and the company financial statements for the year ended 31<sup>st</sup> December 2006

### Results and dividends

The results for the year ended 31<sup>st</sup> December 2006 are shown in the Income Statement on page 8 The loss for the year after taxation was £4,779,000 (2005 £13,215,000 loss)

The directors do not recommend the payment of a dividend

### Principal activities, review of the business and future developments

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

The result for the year reflects the group's investment in the growth of the business The increase in revenue has been achieved through the growth plans implemented over the past few years Electricity sales built on the significant growth experienced in 2005, with the volume delivered in TWh in 2006 showing an increase of 30% from the volume delivered in 2004 Electricity revenue increased by 16% in 2006 compared to 2005

As well as the growth in revenue the group made significant progress on cost control, despite the problems posed by the increasing volatility of the UK energy markets

The company's loss from continuing operations before tax decreased by 60% to £5,241,000 (2005 £13,020,000)

The company's net liabilities were £39,178,000 (2005 £34,419,000 net liabilities), including cash at bank and in hand of £6,883,000 (2005 £14,428,000) However there has been a year on year improvement in the net asset position of the group headed by Gaz de France ESS (UK) Ltd

The delivering portfolio of electricity customers remains strong and provides a firm foundation for the forthcoming year Based on the results achieved this year and the continued support of the ultimate parent company, the directors are confident that the future prospects of the company are satisfactory

### Principal risks and uncertainties facing the company

The key risks are energy prices, credit risk, economic conditions, competitor actions, legislation, business continuity and controls failure The company maintains a strong balance sheet backed by the support of the parent company

Exposure to energy price risk is minimised by restricting quotation validity to limited underlying market price movements and by hedging sales with purchases at the point of contract acceptance Electricity forward contracts are used for hedging purposes only and to provide greater certainty on future revenues and costs

The company's credit risk is attributable to its trade receivables and accrued income The risk is controlled by review of customer creditworthiness and mitigated through the use of credit insurance, letters of credit and customer deposits

The company's treasury policies seek to reduce and minimise financial risk and ensure sufficient liquidity for foreseeable needs Virtually all transactions are in £ sterling, thus eliminating the need for foreign exchange risk management

There is a comprehensive budgeting system in place with an annual budget approved by the Board Management information systems provide the executive management team and directors with relevant and timely reports that identify significant deviations from approved plans and include regular re-forecasts for the year, in order to facilitate timely analysis and appropriate decisions and actions

There is a Gaz de France group instruction manual setting out policies and procedures with which the company is required to comply The Management Team are responsible for ensuring that the company observes and implements the policies and procedures set out in the manual which is regularly reviewed and updated

## **Directors' report**

Health and Safety guidance is provided to employees through information on the intranet and the Company Employee Handbook. A Health and Safety committee comprising departmental representatives meets regularly and provides feedback to the Management Team on outstanding issues. External consultants provide support in ensuring compliance with Health and Safety legislation and good practice.

### **Directors and their interests**

The directors who served during the year ended 31<sup>st</sup> December 2006 were

Mr J C Depail (Chairman)

Mr E Stab

There are no directors interests requiring disclosure under the companies Act 1985

### **Supplier payment policy**

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

### **Disabled employees**

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

### **Employees**

The company places considerable value on the involvement of its employees and has continued its previous practice of ensuring effective two-way communication on matters affecting them as employees, and on various factors affecting the performance of the company. This is achieved through both formal and informal meetings, together with a regular newsletter and information on the group intranet. As part of the on-going development of two way communication between the company and its employees, meetings of the Employee Works Council were held for the first time this year.

### **Environmental Policy**

The company is committed to reducing its impact on the environment. As part of this commitment the company actively promotes and encourages energy efficiency and recycling wherever possible. An 'Energy and Environment Week' was held again this year to highlight and reaffirm the important issues. Staff are encouraged to take part in environmental challenges within the local community.

### **Auditors**

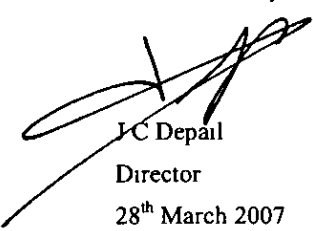
In accordance with section 386 of the Companies Act 1985, a resolution to dispense with the obligation to appoint auditors annually was passed on 12<sup>th</sup> December 2006. Accordingly, Ernst & Young shall be deemed to be re-appointed as auditors from 25<sup>th</sup> April 2007.

## Directors' report

### **Directors' statement as to disclosure of information to the auditors**

As at the date of this report, as far as each director is aware, there is no relevant audit information of which the company's auditors are unaware, and each director has taken such steps as he should have taken as a director in order to make himself aware of any relevant audit information and to establish that the company's auditors are aware of that information

On behalf of the Board



J.C Depail

Director

28<sup>th</sup> March 2007

## **Statement of directors' responsibilities in respect of the financial statements**

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

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

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

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

# **Independent auditors' report**

## **to the shareholders of Gaz de France Marketing Limited**

We have audited the company's financial statements (the "financial statements") for the year ended 31<sup>st</sup> December 2006 which comprise the Income Statement, the Balance Sheet, the Cash Flow Statement, the Statement of Recognised Income and Expense and the related notes 1 to 24. 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'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, information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions are not disclosed.

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

### **Basis of audit opinion**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

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

# Independent auditors' report

to the shareholders of Gaz de France Marketing Ltd

## Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the company's affairs as at 31<sup>st</sup> December 2006 and of its loss for the year then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements

*Ernst & Young LLP*

Ernst & Young LLP  
Registered auditor  
Leeds

29<sup>th</sup> March 2007



## Income statement

for the year ended 31 December 2006

	Notes	2006 £'000	2005 £'000
<b>Revenue</b>	2	642,395	555,857
Cost of sales		(638,672)	(558,770)
Gross (loss)/profit		3,723	(2,913)
Administrative expenses - ongoing		(7,389)	(7,839)
- exceptional	4	-	(125)
<b>Operating loss from continuing operations</b>	3	(3,666)	(10,877)
Finance income	6	12,863	8,791
Finance cost	7	(14,438)	(10,934)
<b>Loss from continuing operations before taxation</b>		(5,241)	(13,020)
Tax credit	8	462	1,579
<b>Loss for the year from continuing operations</b>	21	(4,779)	(11,441)
<b>Loss for the year from discontinued operations</b>	9	-	(1,774)
<b>Loss for the year attributable to equity holders of the parent company</b>	21	(4,779)	(13,215)

## Statement of recognised income and expense


for the year ended 31 December 2006

There was no recognised income or expense attributable to the shareholders of the company other than the loss for the year ended 31 December 2006 of £4,779,000 (2005 – £13,215,000)

## Balance sheet

at 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Non-current assets</b>			
Property, plant and equipment	10	900	859
Intangible assets	11	1,637	1,495
Financial assets	18	5,515	9,477
<b>Total non-current assets</b>		<u>8,052</u>	<u>11,831</u>
<b>Current assets</b>			
Inventories	12	2,028	535
Trade and other receivables	13	366,769	319,348
Financial assets	18	42,603	18,342
Cash and short term deposits	14	6,883	14,428
<b>Total current assets</b>		<u>418,283</u>	<u>352,653</u>
<b>Current liabilities</b>			
Trade and other payables	15	370,336	355,472
Interest bearing loans and borrowings	16	29,920	-
Financial liabilities	18	42,603	18,342
Provisions	17	2,795	5,908
<b>Total current liabilities</b>		<u>445,654</u>	<u>379,722</u>
<b>NET CURRENT LIABILITIES</b>		<u>(27,371)</u>	<u>(27,069)</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings	16	14,344	9,704
Financial liabilities	18	5,515	9,477
Provisions	17	-	-
<b>Total non-current liabilities</b>		<u>19,859</u>	<u>19,181</u>
<b>NET LIABILITIES</b>		<u>(39,178)</u>	<u>(34,419)</u>
<b>Capital and reserves</b>			
Equity share capital	19	-	-
Retained earnings	21	(39,178)	(34,419)
<b>TOTAL EQUITY</b>	21	<u>(39,178)</u>	<u>(34,419)</u>

  
 J C Depail  
 Director  
 28<sup>th</sup> March 2007

## Cash flow statement

for year ended 31 December 2006

	Note	2006 £'000	2005 £'000
<b>Operating activities</b>			
Operating loss from continuing operations		(3,666)	(10,877)
Operating loss from discontinuing operations	9	-	(1,887)
		<u>(3,666)</u>	<u>(12,764)</u>
<i>Adjustments to reconcile operating loss to net cash flows from operating activities</i>			
Depreciation of property, plant and equipment		241	1,585
Amortisation of intangible fixed assets		1,146	1,848
Share based payments		20	131
(Profit) / Loss on disposal of property, plant and equipment		(6)	2
(Increase) in inventories		(1,493)	(457)
(Increase) in trade and other receivables		(30,055)	(136,312)
(Increase) in financial assets		(20,298)	(27,819)
Increase in payables		550	152,943
Increase in financial liabilities		20,298	27,819
(Decrease) / increase in provisions		<u>(3,113)</u>	<u>5,284</u>
<b>Cash generated from operations</b>		<u>(36,376)</u>	<u>12,260</u>
Interest paid		(123)	(230)
Interest received		136	108
Tax received		<u>462</u>	<u>1,584</u>
<b>Net cash flows from operating activities</b>		<u>(35,901)</u>	<u>13,722</u>
<b>Cash flows from investing activities</b>			
Proceeds from the sale of property, plant and equipment	6	-	-
Purchase of property, plant and equipment		(282)	(873)
Purchase of intangible assets		<u>(1,288)</u>	<u>(840)</u>
<b>Net cash flows used in investing activities</b>		<u>(1,564)</u>	<u>(1,713)</u>
<b>Cash flows from financing activities</b>			
Transfer of overdraft to Gaz de France Generation Limited		-	2,651
Share-based payments		<u>-</u>	<u>(98)</u>
<b>Net cash flows used in financing activities</b>		<u>-</u>	<u>2,553</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u>(37,465)</u>	<u>14,562</u>
<b>Cash and cash equivalents at 1 January</b>		<u>14,428</u>	<u>(134)</u>
<b>Cash and cash equivalents at 31 December</b>	14	<u>(23,037)</u>	<u>14,428</u>

## Notes to the financial statements

at 31 December 2006

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

The financial statements of Gaz de France Marketing Limited (the 'Company') for the year ended 31 December 2006 were authorised for issue by the board of the directors on 28th March 2007 and the balance sheet was signed on the board's behalf by J C Depail. Gaz de France Marketing Limited is a private limited company incorporated and domiciled in England & Wales.

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

### 2. Accounting policies

#### Basis of Preparation

The accounting policies which follow set out those policies which apply in preparing the financial statements for the year ended 31 December 2006.

The company financial statements are presented in Sterling (£000's).

#### Going concern

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

#### Significant accounting judgements

##### Judgements

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

##### Provisions

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

#### Property, plant and equipment

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

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

Leasehold property	-	over the period of the lease
Plant & machinery	-	over the shorter of the individual asset life and the estimated remaining life of the power plant (2 – 22 years)
Fixtures, fittings and office equipment	-	3 years
IT equipment & software	-	3 years to 5 years
Motor vehicles	-	5 years

## Notes to the financial statements

at 31 December 2006

### 2. 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 before being brought into use.

#### Impairment of assets

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

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

#### Financial Assets

Financial assets in the scope of IAS 39 are classified as financial assets at fair value through profit or loss or loans and receivables, as appropriate. The company determines the classification of its financial assets at initial recognition and re-evaluates this designation at each financial year-end. When financial assets are recognised initially, they are measured at fair value.

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

## Notes to the financial statements

at 31 December 2006

### 2. Accounting policies (continued)

#### *Financial assets at fair value through profit or loss*

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

#### *Loans and receivables*

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

#### *Fair values*

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

#### **Trade and other receivables**

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

#### **Cash and cash equivalents**

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

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

#### **Interest bearing loans and borrowings**

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

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

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

#### **Derecognition of financial assets and liabilities**

A financial asset or liability is generally derecognised when the contract that gives rise to it is settled, sold, 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.

#### **Derivative financial instruments and hedging**

The company enters into wholesale purchase commitments to satisfy demand forecasts associated with its supply contracts. The movements in fair value of some of these commitments qualify as derivative financial instruments due to the terms and conditions attached to the related supply contracts. 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.

## Notes to the financial statements

at 31 December 2006

### 2. Accounting policies (continued)

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

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

#### *Fair value hedges*

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

#### **Inventories**

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

#### **Income Taxes**

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

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

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

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

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

#### **Provisions**

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

Where the company expects some or all of a provision to be reimbursed, for example under an insurance policy, the reimbursement is recognised as a separate asset but only when recovery is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement. 2

## Notes to the financial statements

at 31 December 2006

### 2. Accounting policies (continued)

Where discounting is used, the increase in the provision due to unwinding the discount is recognised as a finance cost

#### **Revenue Recognition**

##### *Sale of goods*

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

##### *Finance Income*

Revenue is recognised as interest accrues.

#### **Operating leases and hire purchase commitments**

Leases where the lessor retains a significant portion of the risks and benefits of ownership of the asset are classified as operating leases and rentals payable are charged to income in equal annual amounts over the lease term.

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

#### **Onerous contracts**

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

#### **Borrowing costs**

Borrowing costs are recognised as an expense when incurred.

#### **Pension costs**

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

#### **Share-based payments**

##### *Equity settled transactions*

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

#### **Exceptional Items**

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



## Notes to the financial statements

at 31 December 2006

### 2 Accounting policies (continued)

#### New standards and interpretations not applied

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 7	Financial Instruments Disclosures	1 January 2007
IAS 1	Amendment – Presentation of Financial Statements Capital Disclosures	1 January 2007
IFRS 8	Operating Segments	1 January 2009

#### International Financial Reporting Interpretations Committee (IFRIC)

IFRIC 8	Scope of IFRS 2	1 May 2006
IFRIC 9	Reassessment of Embedded Derivatives	1 June 2006
IFRIC 10	Interim Financial Reporting and Impairment	1 November 2006
IFRIC 11	IFRS 2 – Group and Treasury Share Transactions	1 March 2007
IFRIC 12	Service Concession Arrangements	1 January 2008

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

Upon adoption of IFRS 7, the company 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 company 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.

#### Revenue

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

## Notes to the financial statements

at 31 December 2006

### 3. Operating loss

This is stated after charging/(crediting)

	2006	2005
	£'000	£'000
Change in fair value of certain wholesale purchase contracts	(20,298)	(27,819)
Change in fair value of amounts due to/from customers in respect of certain supply contracts	20,298	27,819
Depreciation		
owned assets	241	1,586
Amortisation of intangibles	1,146	1,848
(Profit) / loss on disposal of property, plant and equipment	(6)	2
Fees paid to auditors for the audit of the financial statements	47	34
Other fees to auditors for taxation services	60	15
Operating lease rentals - land & buildings	382	312
- others	125	153
	<u>          </u>	<u>          </u>

### 4 Exceptional items

	2006	2005
	£'000	£'000
Cost of restructuring and relocating continuing operations	-	(59)
Cost of employee share scheme	-	184
	<u>          </u>	<u>          </u>
	-	125
	<u>          </u>	<u>          </u>

#### *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. In 2005 the credit represents the release of accruals no longer required.

#### *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. The charge recognised in relation to these shares is shown in this note and detailed more fully in note 20.

## Notes to the financial statements

at 31 December 2006

### 5. Directors remuneration and staff costs

	2006 £'000	2005 £'000
Wages and salaries	5,516	5,207
Social security costs	591	564
Other pension costs	169	173
	<u>6,276</u>	<u>5,944</u>

The monthly average number of employees (including directors paid by Gaz de France Marketing Limited) during the year was 173 (2005 - 160)

	2006 Number	2005 Number
Sales and Marketing	54	48
Administration	119	112
	<u>173</u>	<u>160</u>

One director was remunerated during 2006 and received £206,000 inclusive of £21,000 company contributions paid to the parent company defined benefit pension scheme pension (2005 - £182,000 inclusive of pension £19,000) Other group companies paid all other directors

### 6. Finance income

	2006 £'000	2005 £'000
Interest receivable for late payment	48	131
Bank interest receivable	89	221
Inter-company loan interest	12,726	8,439
	<u>12,863</u>	<u>8,791</u>

For terms and conditions relating to related party receivables, refer to note 24

### 7. Finance costs

	2006 £'000	2005 £'000
Bank loans, overdrafts and other loans repayable within 5 years	108	249
Inter-company loan interest	14,314	10,685
Interest payable for late payment	16	-
	<u>14,438</u>	<u>10,934</u>

For terms and conditions relating to related party payables, refer to note 24

## Notes to the financial statements

at 31 December 2006

### 8. Taxation

	2006 £'000	2005 £'000
(a) Tax credit		
<b>UK corporation tax</b>		
UK corporation tax on profits of the period	-	-
Group relief recoverable	(360)	(1,439)
Adjustments in respect of previous periods	(102)	(253)
<b>Tax credit in the income statement</b>	<b>(462)</b>	<b>(1,692)</b>
	2006 £'000	2005 £'000
(b) Reconciliation of tax credit		
<b>Loss before tax</b>	<b>(5,241)</b>	<b>(14,907)</b>
Loss multiplied by standard rate of corporation tax of 30%	(1,572)	(4,472)
Adjustments in respect of prior periods	(102)	(253)
Tax effect of non-deductible or non-taxable items	47	14
Group relief surrendered for no payment	1,390	2,375
Transfers to unrecognised tax assets	(225)	644
<b>Tax credit</b>	<b>(462)</b>	<b>(1,692)</b>

#### (c) Factors affecting future tax charges

The company has deductible temporary differences of £4,125,000 (2005 £4,630,000) and tax losses of £5,873,000 (2005 £5,873,000) to be carried forward indefinitely and offset against future taxable profits

A net deferred tax asset of £2,999,000 (2005 £3,151,000) in respect of deductible temporary differences and tax losses has not been recognised due to uncertainty of future taxable profits

### 9. Discontinued Operations

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

## Notes to the financial statements

at 31 December 2006

### 9 Discontinued Operations (continued)

The results for the generation business for the period prior to the transfer are presented below,

	2005 £'000
<b>Revenue</b>	9,450
Cost of sales	(9,510)
<b>Gross (loss)</b>	(60)
Administrative expenses	(1,827)
	(1,887)
Finance cost	-
<b>Loss before tax from discontinued operations</b>	(1,887)
Tax	113
<b>Loss for the period from discontinued operations</b>	(1,774)

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

	£'000
Property, plant and equipment	34,151
Inventories	2,118
Trade and other receivables	7,527
Trade and other payables	(12,119)
Provisions	(624)
Interest bearing loan with group undertaking	(38,106)
Bank overdraft	(2,651)
Total disposal consideration	(9,704)

The nature of the disposal consideration of £9,704,000 payable to Gaz de France Generation Limited for assuming the net liabilities of Shotton Combined Heat and Power Station was in the form of a loan and thus there was no consideration in the form of cash and cash equivalents. For details of related party loans see note 24.

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

	2005 £'000
Operating cash flows	(5,328)
Investing cash flows	(725)
<b>Net cash (outflow) / inflow</b>	(6,053)

## Notes to the financial statements

at 31 December 2006

### 10. Property, plant and equipment

	<i>Long Leasehold Property</i>	<i>Plant &amp; Machinery</i>	<i>Fixtures, fittings and office equipment</i>	<i>IT equipment</i>	<i>Motor vehicles</i>	<i>Total</i>
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost</b>						
At 1 January 2006	-	-	629	1,481	-	2,110
Additions	-	-	28	254	-	282
Disposals	-	-	-	(28)	-	(28)
At 31 December 2006	-	-	657	1,707	-	2,364
<b>Accumulated depreciation</b>						
At 1 January 2006	-	-	155	1,096	-	1,251
Charge for the year	-	-	114	127	-	241
Disposals	-	-	-	(28)	-	(28)
At 31 December 2006	-	-	269	1,195	-	1,464
<b>Net book amount</b>						
At 31 December 2006	-	-	388	512	-	900
<b>Cost</b>						
At 1 January 2005	1,278	37,942	409	1,027	50	40,706
Additions	2	94	261	516	-	873
Discontinued Operations	(1,280)	(38,036)	(41)	(56)	(50)	(39,463)
Disposals	-	-	-	(6)	-	(6)
At 31 December 2005	-	-	629	1,481	-	2,110
<b>Accumulated depreciation</b>						
At 1 January 2005	55	4,189	61	662	12	4,979
Charge for the year	12	1,026	94	452	2	1,586
Discontinued Operations	(67)	(5,215)	-	(14)	(14)	(5,310)
Disposals	-	-	-	(4)	-	(4)
At 31 December 2005	-	-	155	1,096	-	1,251
<b>Net book amount</b>						
At 31 December 2005	-	-	474	385	-	859

## Notes to the financial statements

at 31 December 2006

### 11. Intangible assets

	2006	2005
	<i>Application Software £'000</i>	<i>Application Software £'000</i>
<b>Cost</b>		
At 1 January	6,786	5,946
Additions	1,288	840
<b>At 31 December</b>	<b>8,074</b>	<b>6,786</b>
<b>Aggregate amortisation</b>		
At 1 January	5,291	3,443
Charge for the period	1,146	1,848
<b>At 31 December</b>	<b>6,437</b>	<b>5,291</b>
<b>Net book amount at 31 December</b>	<b>1,637</b>	<b>1,495</b>

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

### 12. Inventories

	2006 £'000	2005 £'000
Levy Exempt Certificates and Renewable Obligation Certificates	2,028	535

### 13. Trade and other receivables

	2006 £'000	2005 £'000
Trade receivables	27,321	42,577
Amounts owed by group undertakings	3,450	30,705
Amounts owed by fellow subsidiary undertakings	285,244	183,850
Prepayments and accrued income	50,754	62,216
	<b>366,769</b>	<b>319,348</b>

For terms and conditions relating to related party receivables, refer to note 24

## Notes to the financial statements

at 31 December 2006

### 14 Cash and short-term deposits

	2006 £'000	2005 £'000
Cash at bank and in hand	6,883	14,428
Short-term deposits	-	-
	<u>6,883</u>	<u>14,428</u>

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

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

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

	2006 £'000	2005 £'000
Cash at bank and in hand	6,883	14,428
Short-term deposits	-	-
Bank overdraft (Note 16)	(29,920)	-
	<u>(23,037)</u>	<u>14,428</u>

### 15. Trade and other payables

	2006 £'000	2005 £'000
Trade creditors	2,408	3,584
Amounts owed to group undertakings	46,728	77,927
Amounts owed to fellow subsidiary undertakings	286,633	229,769
Other creditors	14,564	15,576
Other taxation and social security	11,287	14,575
Accruals and deferred income	8,716	14,041
	<u>370,336</u>	<u>355,472</u>

For terms and conditions relating to related party payables, refer to note 24



## Notes to the financial statements

at 31 December 2006

### 16. Interest bearing loans and borrowings

	2006 £'000	2005 £'000
<b>Current</b>		
Bank overdrafts (a)	29,920	-
<b>Non-current</b>		
Amount owed to fellow subsidiary undertaking (b)	14,344	9,704

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

(b) The amount owed to fellow subsidiary undertaking relates to a loan received from Gaz de France Generation Limited in consideration for the sale of the Combined Heat and Power Station at Shotton as detailed in note 9. For terms and conditions please refer to note 24.

### 17 Provisions

	<i>Onerous Contracts</i> £'000	<i>Total</i> £'000
At 1 January 2006	5,908	5,908
Arising during the year	2,795	2,795
Utilised	(5,908)	(5,908)
At 31 December 2006	2,795	2,795
Current 2006	2,795	2,795
Non-current 2006	-	-
	2,795	2,795
Current 2005	5,908	5,908
Non-current 2005	-	-
	5,908	5,908

#### *Onerous contracts*

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

## Notes to the financial statements

at 31 December 2006

### 18. Financial Instruments

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

#### Interest rate risk profile of financial assets and liabilities

The interest rate profile of the financial assets and liabilities of the company as at 31 December 2006 and as at 31 December 2005 is as follows

<i>Year ended 31 December 2006</i>	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and short term deposits	6,883	-	-	-	-	-	6,883
Amounts owed by fellow subsidiary undertakings	285,244	-	-	-	-	-	285,244
Amounts owed by group undertakings	3,450	-	-	-	-	-	3,450
Amounts owed to fellow subsidiary undertakings	286,633	14,344	-	-	-	-	300,977
Amounts owed to group undertakings	46,728	-	-	-	-	-	46,728
Bank over draft	29,920	-	-	-	-	-	29,920

<i>Year ended 31 December 2005</i>	Within 1 year £'000	1-2 years £'000	2-3 years £'000	3-4 years £'000	4-5 years £'000	More than 5 years £'000	Total £'000
Cash and short term deposits	14,428	-	-	-	-	-	14,428
Amounts owed by fellow subsidiary undertakings	183,850	-	-	-	-	-	183,850
Amounts owed by group undertakings	30,705	-	-	-	-	-	30,705
Amounts owed to fellow subsidiary undertakings	229,769	9,704	-	-	-	-	239,473
Amounts owed to group undertakings	77,927	-	-	-	-	-	77,927

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

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

#### Credit risk

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

#### Fair values of financial assets and financial liabilities

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

## Notes to the financial statements

at 31 December 2006

### 18. Financial Instruments (continued)

	2006 £'000	2005 £'000
<i>Financial Assets</i>		
Cash and short term deposits	6,883	14,428
Amounts owed by fellow subsidiary undertakings	285,244	183,850
Amounts owed by group undertakings	3,450	30,705
Fair value adjustment of certain wholesale purchase commitments*		
- current	42,603	18,342
- non-current	5,515	9,477
<i>Financial Liabilities</i>		
Bank overdraft	29,920	-
Amounts owed to fellow subsidiary undertakings		
- current	286,633	229,769
- non-current	14,344	9,704
Amounts owed to group undertakings	46,728	77,927
Amounts due to customers in respect of certain supply contracts*		
- current	42,603	18,342
- non-current	5,515	9,477

\*see note on fair value hedges below

#### Hedges

##### *Fair value hedges*

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

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

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

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

##### *Other hedges*

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

## Notes to the financial statements

at 31 December 2006

### 19. Authorised and issued share capital

	2006 £'000	2005 £'000
<i>Authorised</i>		
1,000 ordinary shares of £1 each	1	1
<i>Called up, allotted and fully paid</i>		
1 ordinary share of £1 each	-	-

### 20. Share-based payments

During 2005 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 2006 is £20,000 (2005 - £131,000). 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,

	2006 No	2006 WAFV	2005 No	2005 WAFV
Shares purchased at grant date	0	0	70,658	13.82
Bonus shares issued	1,057	18.75	5,382	12.80
Total shares granted in the year	1,057	18.75	76,040	13.75

## Notes to the financial statements

at 31 December 2006

### 20. Share-based payments (continued)

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 2006

	2006	2005
Reference price of the shares (£)	0	14.09
Current price of the underlying share (£)	23.62	17.04
Average expected period of non-transferability (years)	0	3
Dividend yield (%)	3.25	3.25
Risk free interest rate (%)	3.20	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.

### 21. Reconciliation of movements in equity

	<i>Equity Share Capital £'000</i>	<i>Retained Earnings £'000</i>	<i>Total Equity £'000</i>
At 1 January 2005	-	(21,237)	(21,237)
Loss for the year	-	(13,215)	(13,215)
Share based payment	-	131	131
Employer contribution for share based payment	-	(98)	(98)
At 31 December 2005	-	(34,419)	(34,419)
Loss for the year	-	(4,779)	(4,779)
Share based payment	-	20	20
At 31 December 2006	-	(39,178)	(39,178)

### 22. 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 £169,000 (2005 – £173,000). At 31 December 2006, contributions of £26,000 (2005 – £nil) were unpaid.

## Notes to the financial statements

at 31 December 2006

### 23. Other financial commitments

#### (i) Operating leases

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

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

	<i>Land and building</i>		<i>Other</i>	
	<i>2006</i>	<i>2005</i>	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Not later than one year	382	382	129	148
After one year but not more than five	1,528	1,910	62	168
After five years	2,433	2,636	-	-
	<u>4,343</u>	<u>4,928</u>	<u>191</u>	<u>316</u>

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

#### (ii) Electricity purchase commitments

At 31 December 2006 the company was committed to certain future electricity purchase contracts. These contracts are due to be settled as follows:

	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>
Not later than one year	332,934	262,020
After one year but not more than five	123,995	75,247
After five years	-	-
	<u>456,929</u>	<u>337,267</u>

#### (iii) Gas purchase commitments

At 31 December 2006 the company was committed to certain future gas purchase contracts. These contracts are due to be settled as follows:

	<i>2006</i>	<i>2005</i>
	<i>£'000</i>	<i>£'000</i>
Not later than one year	25,137	15,855
After one year but not more than five	13,264	8,880
After five years	-	-
	<u>38,401</u>	<u>24,735</u>

## Notes to the financial statements

at 31 December 2006

### 24. Related party transactions

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

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

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

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.

2006

	<i>Sales</i>	<i>Purchases</i>	<i>Interest receivable</i>	<i>Interest payable</i>	<i>Amount owed from</i>	<i>Amount owed to</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gaz de France International S A	6,333	257,487	-	-	-	46,728
Gaselys S A	12,212	243,105	-	-	2,690	-
Gaz de France Britain Limited	-	-	-	-	360	-
Cofathec Heatsave Limited	712	-	-	-	400	-
Gaz de France ESS (UK) Ltd	-	-	-	36	-	5,315
Gaz de France Solutions Limited	-	328	12,683	72	284,435	-
Gaz de France Sales Limited	4,781	-	-	13,483	-	277,863
Gaz de France Services Limited	-	-	43	-	809	-
Gaz de France Generation Limited	851	39,268	-	723	-	17,799

## Notes to the financial statements

at 31 December 2006

### 24. Related party transactions (continued)

2005

	<i>Sales</i>	<i>Purchases</i>	<i>Interest</i>	<i>Interest</i>	<i>Amount</i>	<i>Amount</i>
	<i>£'000</i>	<i>£'000</i>	<i>receivable</i>	<i>payable</i>	<i>owed from</i>	<i>owed to</i>
	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>	<i>£'000</i>
Gaz de France International S A	845	4,024	-	-	28,938	-
Gaselys S A	5,132	439,360	-	-	-	77,843
Gaz de France Britain Limited	1,692	-	-	-	1,326	-
Cofathec Heatsave Limited	551	-	-	-	328	-
Investment Gas Holland Limited	-	-	-	-	-	84
Gaz de France ESS (UK) Ltd	-	-	-	1,133	-	5,279
Gaz de France Solutions Limited	-	472	8,254	-	182,425	-
Gaz de France Sales Limited	4,281	-	-	9,010	-	224,490
Gaz de France Services Limited	-	-	41	-	765	-
Gaz de France Generation Limited	27,249	34,114	144	542	527	9,704

#### *Terms and conditions of transactions*

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

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

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

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

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

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

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

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

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

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

The group operates a bank netting facility between its constituent companies. A Letter of Comfort from Gaz de France International SA held in the name of the company's bankers provides security for this facility (note 14). Cash is transferred between the company accounts in order to ensure all bank covenants



## Notes to the financial statements

at 31 December 2006

### 24. Related party transactions (continued)

are satisfied. The interest receivable and payable from the bank accounts is all transacted through Gaz de France Solutions Limited and then recharged between the constituent companies.

Gaz de France International SA act as joint guarantor with Gaz de France ESS (UK) Ltd on two operating leases (note 23).

#### *Terms and conditions of related party balances*

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

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

#### *Compensation of key management personnel of the company*

	2006 £'000	2005 £'000
Salaries and short-term employee benefits	1,124	1,244
Post-employment benefits	66	33
Share-based payments	4	113
	<u>1,194</u>	<u>1,390</u>

There have been no transactions with the Directors of the Company during the year other than those disclosed above and in note 5.